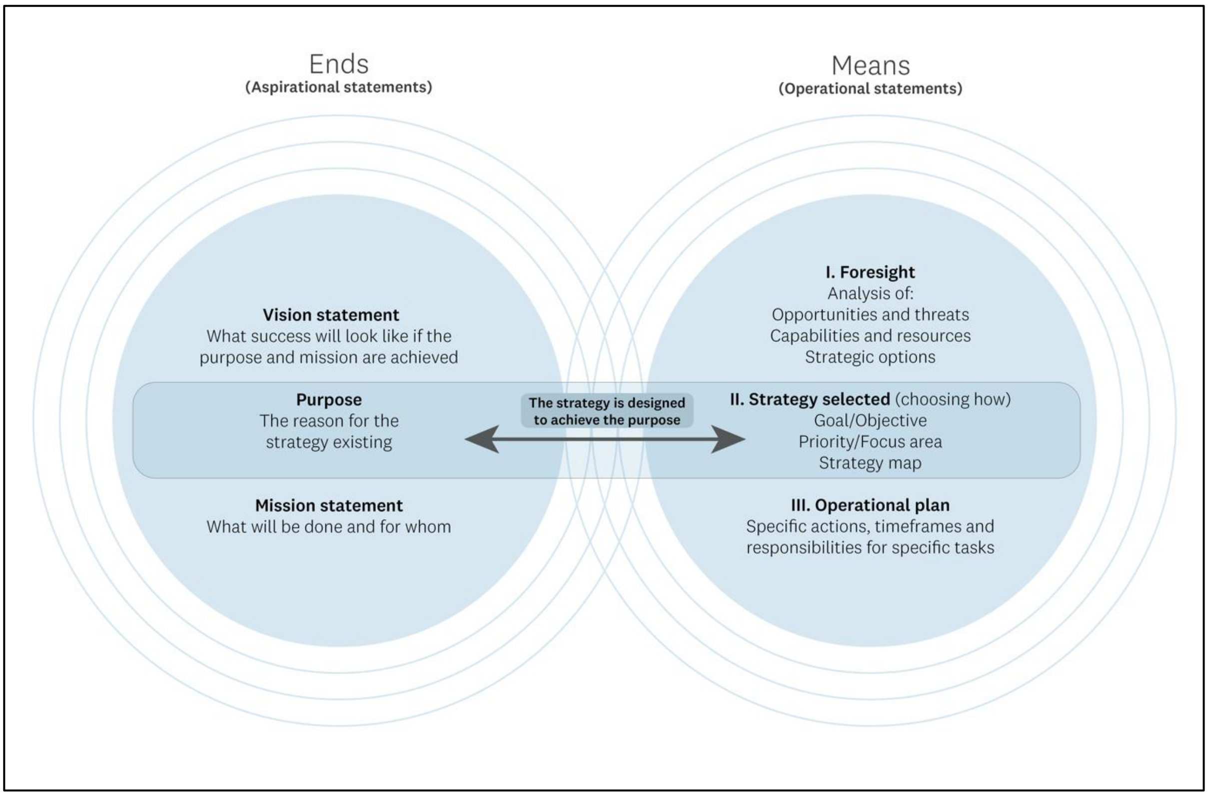


Submission

Strategy and Metrics and Targets Consultation Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures (NZ CS 1)

May 2022

About the McGuinness Institute
The McGuinness Institute was founded in 2004 as a non-partisan think tank working towards a sustainable future for Aotearoa New Zealand. *Project 2058* is the Institute's flagship project focusing on Aotearoa New Zealand's long-term future. Because of our observation that foresight drives strategy, strategy requires reporting, and reporting shapes foresight, the Institute developed three interlinking policy projects: *Foresight*NZ, *Strategy*NZ and *Reporting*NZ. Each of these policy tools must align if we want Aotearoa New Zealand to develop durable, robust and forward-looking public policies. The policy projects frame and feed into our research projects, which address a range of significant issues facing Aotearoa New Zealand. The seven research projects are: *Civics*NZ, *ClimateChange*NZ, *OneOcean*NZ, *Pandemic*NZ, *PublicScience*NZ, *TacklingPoverty*NZ and *Talent*NZ.

About the cover
The diagram on the cover illustrates the Institute's understanding of the relationship between various terms used to describe the different ways an organisation shares its intention to achieve success and bring about change. This diagram is used in our analysis of government department strategies (GDSs). The Institute hopes to release the *2021 GDS Index* in early June 2022.

1.0 Introduction

The Institute welcomes the opportunity to offer feedback on the 2022 *Strategy, and Metrics and Targets Consultation document (NZ CS 1).* The upcoming standards will provide a further opportunity to improve climate-related disclosures and help society respond better to climate risks and opportunities.

Given the recent IPCC reports, the latest 8 May 2022 *Global Annual to Decadal Climate Update* (produced by the UK Met Office and the World Meteorological Organization, who believe the chance of at least one of the next five years exceeding 1.5°C above pre-industrial levels is now about 50:50)[1] and the New Zealand King Salmon (NZKS) case study carried out earlier this year by the Institute, it is clear we must move quickly. The Institute's thinking is summarised in the fourteen recommendations below. If you are short for time, we suggest you read our recommendations overleaf, and look specially at the additional terms added at the end of Tables 1 and 2 (our proposed taxonomy).

The Institute would like to thank the External Reporting Board (XRB) for inviting feedback on their second consultation document. Two major areas of our work programme are climate change and reporting, hence our interest in climate-related reporting.

This document
The submission has been broken down into two parts: Section 2.0: General discussion and observations, and Section 3.0: Answers to specific consultation questions. The Institute has also included a range of appendices to support and evidence points made in this submission:

Appendix 1: Consultation questions
Appendix 2: Relevant McGuinness Institute publications from 2011 onwards
Appendix 3: Excerpts from *Report 17 – ReportingNZ: Building a reporting framework fit for purpose*
Appendix 4: Timeline of climate-related policy
Appendix 5: Common climate-related terms from MfE (2021)
Appendix 6: Government department strategies in operation as at 31 December 2021 that mention 'climate change'
Appendix 7: Figures from *Working Paper: 2021/10: Analysis of Existing Scenarios in Aotearoa New Zealand*

The case study
To help stress test the ideas contained in the consultation, the Institute prepared a case study that looked specially at an NZSX-listed company – *Discussion paper 2022/02: New Zealand King Salmon case study: A financial reporting perspective*.[2] The resulting case study illustrates some of the challenges in applying climate-related disclosures. For example, it illustrates that if NZKS had published a climate statement, the company, as well as the shareholders and potential investors, may have made different decisions.
It may have also enabled other stakeholders (such as the bank and NGOs) to have understood and engaged with the implications in a more timely and positive manner. Importantly, it may have also enabled the Commissioners currently hearing an application (to locate two new farms outside of the Pelorus Sound, in the Cook Strait), to better consider the costs, benefits, and risks, and if approved, design better controls to adapt to climate change. The case study illustrates the problem the XRB standards are trying to solve. The case study forms part of our submission and informs several of our recommendations.

The opportunity
The chance to design a climate-diverse reporting framework fit for purpose, one that helps the country invest well and pivot to a low-carbon economy, is a once in a generation opportunity. The government is working hard to help the country get ready, including setting a domestic-aligned 2050 emissions target (see Box 1), and requiring mandatory climate statements. Climate statements ensure the entity's governance team (the board and management) are informed and that they, in turn, inform a wide range of users about the specific climate risks the entity faces. A climate statement is the vehicle for the information to be collected, summarised, and presented to the public. To help clarify the high-level observations and ideas discussed in this submission, the Institute provides the following fourteen recommendations.

Fourteen recommendations

1. The XRB should reconsider the narrow definition of 'user' in light of the purpose of the standard (outlined in s 19B of the Financial Reporting Act 2013, see Box 5 below). The legislation specifically mentions stakeholders, hence the Institute recommends the standards are designed to meet the needs of a wide range of stakeholders (investors, bankers, insurance providers, suppliers, customers, employees, NGOs, neighbours, councils, government and citizens), not just a select few. The Institute has observed the users of climate statements can be (and often are) very different from the users of financial statements. This is why the definitions of the terms 'purpose' and 'strategy' are highlighted on the front cover of this submission; the 'who' and 'what' needs to be clear, and if the 'who' is all users (not just those operating in the capital markets), then the 'what' needs to be very specific.

2. The XRB creates a sector and preparer neutral standard/s; one that is able to be used by both the public and private sectors, and both mandatory and voluntary preparers. The XRB has expertise in tailoring the same standard for both Tier 1 and Tier 2 reporters; similarly, the Institute suggests applying this approach to cater for different types of preparers within the same standard. For example, specific notes and examples could be provided for for-profit entities and not-for-profit public benefit entities.

3. The XRB designs and prepares a climate-related disclosure framework, with a focus on being user-friendly, cost-effective, logical, integrated, coherent, and aligned with financial statements and annual reports (see Figure 4, right diagram). The legislation requires the establishment of a climate-related disclosure framework (similar in detail to the accounting standards disclosure framework, (see Box 2 and Box 5). Importantly, even though the TCFD was designed for primary users in the capital markets space, it has been adopted more broadly. We expect that this will be the case with the XRB's climate standards. Given this and the climate urgency, we would like to see the climate-related disclosure framework designed for both mandatory and voluntary reporters. We are unsure if this would require consultation and the Minister's approval, but this may be something that would be welcomed by the Minister concerned.

4. The XRB should be clear on the difference between climate risks to be reported in financial statements versus climate risks to be reported in climate statements. The bar for climate risks to be reported in financial statements should be higher (and therefore fewer) than climate risks in climate statements. Importantly, if you use the same definition for materiality for both financial statements and climate statements, preparers, in theory, will publish the same set of climate risks in both. However, the goal of a climate statement is to go much deeper and also report on low-probability, high-magnitude risks (in contrast, financial statements tend to report on material high-probability, high-magnitude events). Users of climate statements will be seeking more detail on the types and nature of risks, will be trying to navigate and make decisions such as whether to loan money, supply goods, buy product, or support/fight the social licence of companies to operate in the communities where they live (e.g. those unhappy with NZKSs impact on the environment). For this reason we suggest not defining materiality generally (as this may become confusing with the financial statements definition of materiality), but instead defining terms such as 'climate risks', 'material climate risks', 'material climate targets', 'material climate metrics', 'financial climate risks', 'probability' and 'magnitude'.

5. The XRB supports the Companies Office to create a centralised and publicly available Climate Statement Register for preparers (both mandatory and voluntary) to lodge climate statements, and for users to access climate statements. Banks, customers, insurers, investors and other entities will be strategically reviewing the climate statements of clients, suppliers, and customers to improve their own systems and manage their own climate risks. If we wish Aotearoa New Zealand to become a climate-intelligent country, we need to not only create climate-intelligent markets, but also enable investors, bankers, suppliers, consumers and other stakeholders to become climate-intelligent. Ensuring equality and ease of access to data is one way we can facilitate the early identification of stranded assets, and contribute to a just transition.

6. The XRB stress tests the proposed standards against practical situations (such as the NZKS case study), and provides fictional examples within each standard. The Institute believes this process will help to better identify the taxonomy that is needed (and what is not). See suggestions in Tables 1–4 of this submission.

7. The XRB establishes a solid platform for the standard/s, whilst leaving enough room for flexibility. The Institute expects that as more urgent action is sought in the short-term, an increasing number of entities will be required by law to publish climate statements. Therefore, the Institute suggests the XRB uses a term like 'mandatory climate statement reporter' (or if necessary, the term 'FMA climate reporting entity', or FMACRE for short), so that as other entities are required to report in the future (e.g. those over 200 employees), the standard will not require any strategic changes.

8. The XRB strengthens guidance on what is often referred to as the 'who' question and the 'what' question. Importantly, the purpose of the climate statements and climate-related disclosures (outlined in s 19B of the Financial Reporting Act 2013, see Box 5 below) is to encourage and enable entities to routinely demonstrate consideration of climate risks and opportunities. This leads to a number of observations:

   (a) Material 'financial climate risks' will continue to be reflected in the financial standards.
   (b) That the financial statements and the climate statements will align and contain similar disclosures in terms of 'material financial climate risks'.
   (c) That assurance providers, for both financial statements and climate statements, should be obliged to read (and state they have read) the climate statement or financial statements (respectively).
   (d) Entities should not be required to report on material opportunities. This is because this may expose reporters to sharing a competitive advantage (i.e. an opportunity). The reporting of climate opportunities should therefore be voluntary.
   (e) Be aware of the existing responsibilities of directors, and make this clear and aligned within the standards. The TCFD was strategically designed to ensure the board and management of various entities are adequately informed. It achieves this by requiring board and management to seek out climate information, so that investors can be confident that the board and management have undertaken thorough research into climate-related risks and opportunities. Importantly, once a board 'knows' the risks its business faces, it cannot 'unknow' them. If there are risks, the board has an obligation to inform shareholders by ensuring material risks are included in the financial statements (often as a note, see the NZKS case study). Therefore when defining materiality, it will be important to consider what information should be required to be disclosed. The Institute would like to see all 'material climate risks' (see Table 1 definition) required to be disclosed by mandatory reporters, including those risks that are physical and transitional.

9. The XRB should not provide a soft entry to first-time adopters (see consultation question 6). In December 2020, Aotearoa New Zealand declared a climate emergency, committing to urgent action on reducing emissions. The mandatory climate reporting entities are large organisations who will have staff fully aware of recent developments regarding climate reporting requirements. Further, the XRB has limited resources and they need to focus on the outcome, not the process (there are many consultants that can help with hand-holding). Lastly, entities cannot and should not use a lack of skills or capabilities as a reason not to comply. Doing so is not to their benefit, nor to the benefit of society as a whole.

10. The XRB should draw on expertise across the regulatory system. For example, we suggest:

    - The XRB requests that MfE publishes an environmental measurement taxonomy (with formulas);

- MBIE publishes a guide for preparers on useful metrics for each Business Industry Classification Code; and
- The XRB requests that the Minister requires NIWA to publish an Aotearoa New Zealand reference climate scenario on a regular basis (possibly every three years). NIWA has prepared a very basic 2016 climate scenario (see their website[3]), however more work is needed. Aotearoa New Zealand has a unique climate risk profile that mandatory and voluntary reporters need to understand in order to publish meaningful, relevant, useful and timely climate statements.

11. Preparers should be required to stress test their business model against the following:

    A: Take into account domestic emissions targets, assessments and plans:
    - The latest domestic-aligned 2050 emissions target,
    - The latest *National Climate Change Risk Assessment* (NCCRA),
    - The latest emissions reduction plan (ERP), and
    - The latest national adaptation plan (NAP) (yet to be published)

    B: Take into account a minimum of three climate-related scenarios:
    - The latest Aotearoa New Zealand reference climate scenario (mandatory),
    - The latest IPCC global warming scenario/s (ideally 2°C) (mandatory), and
    - One or more scenario/s of the preparer's choice. (voluntary). Note: This could be a national, local or industry scenario/s. The only prerequisite is that an overview of the scenario/s is included in the climate statement, outlining when it was prepared, by whom, and a brief summary of its findings (a link to the scenario document is voluntary).

12. Consideration should be given to improving the user experience of preparers and users across the whole regulatory framework, in collaboration with the Companies Registrar, the NZX and the FMA. Furthermore, preparers and assurers should be required to meet certain content requirements, see list in Section 2.5. These include, for example:
    (i) Including a 'nature of the business' statement (which is currently required in annual reports) in climate statements (see s 19B (c) of the Financial Reporting Act 2013, and Section 2.2).
    (ii) Requiring the auditor of the financial statements to add a note confirming that they have read the climate statement (and vice versa).
    (iii) Requiring an entity's penalties to be required to be reported in the climate statement and annual report for five consecutive years.

13. The XRB should continue to work hard on ways to minimise the 'washing' of financial statements. The Institute believes science has matured and specifics are now required. To pivot to a more stable and durable business model, more precise information is now required on items such as stranded assets, material risks, material changes in targets, and new business strategies. It is going to be important that boards and management do not blame their company's financial results on the broad issue of climate change alone. Instead, a successful climate statement will be one that explains in a comprehensive and accurate manner all relevant events that occurred during the financial year, as well as any events that might occur shortly after balance date (but before the statement is published). In the Institute's view, the goal should be for boards and management to work hard to be climate-intelligent, and engage early with climate risks and opportunities. Boards and management will inevitably make mistakes, and therefore the system must be designed to invite transparency and accountability. For example, we might see statements like: 'the Board underestimated the impact of sea-level rise', or 'the risk assessment failed to appreciate the impact of air turbulence on freight costs and the need to write-off expired stock'. Impacts and assumptions need to be specific, quantifiable, understandable and verifiable. See for example, the NZKS case study (e.g. the tonnes of dead fish that were not made public immediately after year end).

14. The XRB will no doubt be considering ways it will review and adjust standards and guidance once they are initially published. The Institute suggests a regular report is essential, demonstrating how the new standards and guidance have been applied. It is unclear whether the review should be undertaken by the XRB or the FMA (or even both). The Institute suggests that more clarity is required regarding how these two organisations plan to work together to deliver quality climate statements. This requires urgent attention as our window to bring about real change is closing.

2.0 General discussion and observations

We acknowledge and support the climate-related disclosures framework currently being developed by the XRB. Our understanding is that the current thinking is to develop a three-pronged approach:
1. Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures (NZ CS 1)
2. Aotearoa New Zealand Climate Standard 2: Adoption of Climate-related Disclosures (NZ CS 2)
3. Aotearoa New Zealand Climate-related Disclosures Concepts (NZ CRDC)

The following section contains a general discussion on the background, and then considers five outstanding questions.

PART 1: BACKGROUND

Aotearoa New Zealand's domestic targets (see Box 1 below) directly influence Emissions Trading Scheme settings through the Climate Change Commission's emission budget process and indirectly the purpose of the reporting framework.

The passage of the Climate Change Response (Zero Carbon) Amendment Act 2019 was passed with an overwhelming, multi-partisan majority (119 ayes/1 no) suggesting that the existing policy will be an enduring feature of Aotearoa New Zealand's climate response. For this reason we believe that the development of this standard, along with other purposes, should be aligned with the domestic-aligned 2050 emissions target and the resulting reports and plans (e.g. NCCRA, ERP and NAP).

(i) The Government's domestic-aligned 2050 emissions target

For this reason the Institute suggests the term, 'domestic-aligned 2050 emissions target' becomes part of the standard/s, see Tables 1 and 2. We need to ensure New Zealand entities are working towards New Zealand targets.

Box 1: Climate Change Response (Zero Carbon) Amendment Act 2019

Part 1B
Emission reduction

Subpart 1—2050 target

5Q Target for 2050

(1) The target for emissions reduction (the **2050 target**) requires that—

(a) net accounting emissions of greenhouse gases in a calendar year, other than biogenic methane, are zero by the calendar year beginning on 1 January 2050 and for each subsequent calendar year; and

(b) emissions of biogenic methane in a calendar year—

(i) are 10% less than 2017 emissions by the calendar year beginning on 1 January 2030; and

(ii) are 24% to 47% less than 2017 emissions by the calendar year beginning on 1 January 2050 and for each subsequent calendar year.

(2) The 2050 target will be met if emissions reductions meet or exceed those required by the target.

(3) In this section, **2017 emissions** means the emissions of biogenic methane for the calendar year beginning on 1 January 2017.

Further, the recent release of Aotearoa New Zealand's first Emissions Reduction Plan (ERP)[4] solidifies the role that climate-related disclosures will play to achieve emissions reductions (as a supporting policy alongside emissions pricing and regulation):

> Financial markets require consistent, comparable and reliable information to enable investors to make good decisions. However, information about the risks and opportunities of climate change to Aotearoa entities is often limited. Aotearoa has become the first country in the world to require public disclosure of climate-related risks and opportunities, in line with robust climate standards. These standards will be issued by the External Reporting Board (XRB). The XRB develops and issues

Aotearoa-specific financial and climate reporting, accounting, and auditing and assurance standards. The disclosure requirements currently apply to around 200 large financial institutions. (p. 118)

Other relevant policies in the ERP include:[5]

- The development of a farm-level accounting and emissions reporting system by 2023, as well as the requirement for all farms to produce an emissions report by the end of 2022 and a mitigation plan by 2025. (p. 255)
- The development of mission-based climate innovation platforms in the research, science, and innovation system. (p. 20)
- The development of a Māori climate strategy and action plan that will elevate te ao Māori and mātauranga Māori within the overall climate response. (p. 15)

The upcoming national adaptation plan (NAP) is currently undergoing consultation (due 3 June 2022)[6] and is colloquially 'the other side of the coin'. While managing emissions is about reversing climate change (or at least slowing it down), the second is about learning to find ways to live with climate change. This is where the risks are identified, assessed, and ideally managed.

The *National Climate Change Risk Assessment* (NCCRA) published in 2020 identified 43 priority risks Aotearoa New Zealand is expected to face between 2020–26.[7] Figure 1 contains the ten most significant; however we believe all 43 should be front of mind for preparers of climate statements.

Figure 1: The 10 most significant risks Aotearoa New Zealand will face from climate change 2020–26
Note: Maladaptation (top right) means failure to adjust adequately or appropriately to the environment or situation.

Natural	Human	Economy	Built	Governance
Risks to coastal ecosystems, including the intertidal zone, estuaries, dunes, coastal lakes and wetlands, due to ongoing sea-level rise and extreme weather events.	Risks to social cohesion and community wellbeing from displacement of individuals, families and communities due to climate change impacts. ✱	Risks to governments from economic costs associated with lost productivity, disaster relief expenditure and unfunded contingent liabilities due to extreme events and ongoing, gradual changes.	Risks to potable water supplies (availability and quality) due to changes in rainfall, temperature, drought, extreme weather events and ongoing sea-level rise. ✱	Risks of maladaptation across all domains due to the application of practices, processes and tools that do not account for uncertainty and change over long timeframes.
Risks to indigenous ecosystems and species from the enhanced spread, survival and establishment of invasive species due to climate change.	Risks of exacerbating existing inequities and creating new and additional inequities due to differential distribution of climate change impacts. ✱	Risks to the financial system from instability due to extreme weather events and ongoing, gradual changes.	Risks to buildings due to extreme weather events, drought, increased fire weather and ongoing sea-level rise. ✱	Risks that climate change impacts across all domains will be exacerbated because current institutional arrangements are not fit for climate change adaptation.

✱ The risk has disproportionate impacts on Māori.
Source: National Climate Change Risk Assessment for Aotearoa New Zealand

(ii) International Sustainability Standards Board (ISSB)

Climate statements (and therefore the standards) are a significant part of the solution. They are the bridge between international thinking and domestic specific risks and goals (discussed above). Therefore, they must align with emerging international best practice, such as the thinking and emerging guidance from the International Sustainability Standards Board (ISSB).[8] However, the standards alone will not be sufficient – the whole regulatory and reporting system must also be realigned in order to deliver timely and accurate information to all, in a just and equitable manner, so that the public, shareholders, and policy makers are all informed at the same time.

Importantly, the ISSB is considerably narrower in terms of reporting and audience. Our understanding, based on the constitution, is that the ISSB is focused on financial statements and contributing to effective capital markets. See an excerpt of the International Financial Reporting Standards Foundation (IFRS) 2021 constitution in Figure 2.

Figure 2: IFRS Foundation Constitution (2021)

2 The objectives of the IFRS Foundation are:

(a) through the IASB and the ISSB, to develop, in the public interest, high-quality, understandable, enforceable and globally accepted standards (referred to as 'IFRS Standards') for general purpose financial reporting based on clearly articulated principles. The IASB is responsible for developing a set of accounting standards (referred to as 'IFRS Accounting Standards') and the ISSB is responsible for developing a set of sustainability disclosure standards (referred to as 'IFRS Sustainability Disclosure Standards'). These complementary sets of IFRS Standards are intended to result in the provision of high-quality, transparent and comparable information in financial statements and in sustainability disclosures that is useful to investors and other participants in the world's capital markets in making economic decisions.

(b) to promote the use and rigorous application of IFRS Standards.

(c) in fulfilling the objectives associated with (a) and (b), to take account of, as appropriate, the needs of a range of sizes and types of entities in diverse economic settings.

(d) to promote and facilitate the adoption of IFRS Standards through the convergence of national and regional standards and IFRS Standards.

(iii) Task Force on Climate-related Financial Disclosures (TCFD)

The Financial Stability Board (FSB) created the Task Force on Climate-related Financial Disclosures (TCFD) to improve and increase reporting of climate-related financial information. When the Institute studied the TCFD, initially very critically, certain aspects of the process helped explain the desired output. Experience suggests that, in general, effective disclosures (whether or not climate-related) should be:

- consistent – in scope and objective across the relevant industries and sectors;
- comparable – to allow investors to assess peers and aggregate risks;
- reliable – to ensure users can trust data;
- clear – presented in a way that makes complex information understandable; and
- efficient – minimising costs and burdens while maximising benefits.[9]

The FSB, on 9 November 2015, also explored who the audience is when it asked the question:

> Which users should be considered as the target audience? Should it be extended beyond lenders, investors and insurers to other users of corporate disclosures (e.g. a wider set of stakeholders which monitor climate issues)?[10]

The FSB concluded: '[i]nvestors, lenders, and insurance underwriters ("primary users") are the appropriate target audience'. There are three key factors here that the Institute believes should be considered when reviewing the definition of 'user' for the New Zealand purpose.

- **Purpose difference**
  The TCFD framework was designed as a voluntary framework (whereas New Zealand's is a mandatory framework).

- **Time difference**
  The TCFD was written in June 2017 (whereas New Zealand's is a 2021/2022 framework).

- **Sector difference**
  The TCFD was written by and for the private sector, in particular, large private investment and bankers operating in capital markers (whereas New Zealand's is for both public and private sectors).

It was not designed for both public- and private-sector entities. Types of primary users are changing, and there is not many smaller and public sector entities reporting against TCFD. Interestingly, the remit for the TCFD asked them to identify the appropriate target audience. The 2017 TCFD recommendations concluded: '[i]nvestors, lenders, and insurance underwriters ("primary users") are the appropriate target audience.'[11] However, the TCFD recommendations also noted that other organisations have an interest:

> The Task Force recognizes that many other organizations, including credit rating agencies, equity analysts, stock exchanges, investment consultants, and proxy advisors also use climate-related financial disclosures, allowing them to push information through the credit and investment chain and contribute to the better pricing of risks by investors, lenders, and insurance underwriters. These organizations, in principle, depend on the same types of information as primary users.[12]

Given the TCFD acknowledges that there are a number of 'other non-primary users' that will depend on this type of information, the definition of primary user is likely to evolve. It is important to note that the users of climate statements are likely to be a different (and much broader) group than the users of financial statements, although there will clearly be some overlap. Other users of the climate statements in Aotearoa New Zealand are likely to include suppliers, customers, employees, neighbours, policy analysts and the general public, including a number of public sector climate reporting entities (CREs) caught under the mandatory reporting rules.

(iv) XRB and Extended External Reporting

On 8 March 2019, the XRB issued a statement on External Extended Reporting.[13] The Institute, in collaboration with XRB, undertook two surveys in mid-2017. One survey focussed on preparers of annual reports, and the other, on users of annual reports. Key findings relevant to this consultation are as follows:

- Both preparers and users welcomed reporting on goals, strategies and targets, but users wanted more information than preparers provide.
- Preparers and users had different views over whether the audience should remain the shareholders or be extended to stakeholders and over the content of disclosures and preparers generally want to disclose less information than users want (see Figure 3).
- Industry statistics were increasingly seen as a key requirement. They enable comparability between companies/industries and contribute to a deeper understanding of risks and trends over time.
- Future orientation information is an emerging key requirement.
    - 85% of preparers indicated future orientation was an important/ very important disclosure.

- 96% indicated future orientation was an important/ very important disclosure, but only 56% thought future orientation was being reported on well.

- Independent assurance is an emerging key requirement for EER information.
  - 56% of preparers thought that EER should be independently assured.
  - 36% of preparers thought the CFO should sign off the financial statements.
  - 76% of users thought that EER should be independently assured.

Figure 3: Preparers' and users' views on elements of EER disclosure [metrics]
Source: McGuinness Institute and XRB: *Survey Insights: An analysis of the 2017 Extended External Reporting Surveys* (2018).[14]

C. CONTENT | *Elements of EER disclosure*

90% considered governance to be an important/very important disclosure in an annual report (Q12).

97% thought governance information was important/very important to disclose (Q6), BUT only **68%** considered it to be reported on well (Q9).

Q: Do you think it is important/very important to disclose information on the following four capitals in EER?

56% Natural capital (Q12) → **87%** Natural capital (Q6), BUT only **33%** considered it to be reported on well (Q9)

53% Human capital (Q12) → **86%** Human capital (Q6), BUT only **33%** considered it to be reported on well (Q9)

46% Economic capital (Q12) → **84%** Economic capital (Q6), BUT only **31%** considered it to be reported on well (Q9)

42% Social capital (Q12) → **75%** Social capital (Q6), BUT only **24%** considered it to be reported on well (Q9)

Q: Do you think it is important/very important to disclose the following statistics in EER?

77% Total deaths as a result of work (Q14) → **93%** Total deaths as a result of work (Q8), BUT only **37%** considered it to be reported on well (Q11)

76% Total company income tax paid (Q14) → **88%** Total company income tax paid (Q8), BUT only **59%** considered it to be reported on well (Q11)

68% Total injuries/illnesses as a result of work (Q14) → **87%** Total injuries/illnesses as a result of work (Q8), BUT only **36%** considered it to be reported on well (Q11)

68% Number of full-time equivalents (FTEs) (Q14) → **85%** Number of full-time equivalents (FTEs) (Q8), BUT only **53%** considered it to be reported on well (Q11)

61% Breaches of air pollution standards (Q14) → **84%** Breaches of air pollution standards (Q8), BUT only **8%** considered it to be reported on well (Q11)

60% Breaches of water quality standards (Q14) → **86%** Breaches of water quality standards (Q8), BUT only **12%** considered it to be reported on well (Q11)

54% Number of employees by gender (Q14) → **70%** Number of employees by gender (Q8), BUT only **37%** considered it to be reported on well (Q11)

53% Total greenhouse gas emissions (Q14) → **79%** Total greenhouse gas emissions (Q8), BUT only **18%** considered it to be reported on well (Q11)

42% Number of stakeholders engaged (Q14) → **69%** Number of stakeholders engaged (Q8), BUT only **23%** considered it to be reported on well (Q11)

36% Number of cyber security breaches (Q14) → **77%** Number of cyber security breaches (Q8), BUT only **9%** considered it to be reported on well (Q11)

31% Amount of nitrogen used (Q14) → **66%** Amount of nitrogen used (Q8), BUT only **8%** considered it to be reported on well (Q11)

18% Average payment period in days (Q14) → **50%** Average payment period in days (Q8), BUT only **14%** considered it to be reported on well (Q11)

17% Types and numbers of animals in care (Q14) → **49%** Types and numbers of animals in care (Q8), BUT only **10%** considered it to be reported on well (Q11)

(v) The Government's climate-related disclosure framework

Box 2: Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021

Section 5:
Climate reporting entity has the meaning set out in section 461O.

Climate statements, in relation to a reporting entity and a balance date, means the climate-related disclosures for the entity as at the balance date, or in relation to the accounting period ending at the balance date, that are required to be prepared in respect of the entity by an applicable climate standard.

9AA Meaning of climate-related disclosure framework
In this Act, climate statements, group climate statements, a report, or other information complies with the climate-related disclosure framework only if the statements, report, or other information complies with—
(a) applicable climate standards; and
(b) in relation to matters for which no provision is made in applicable climate standards, an authoritative notice.

Section 12: Functions of Board
(aa) to prepare and, if it thinks fit, issue climate standards for the purposes of any enactment that requires climate statements or group climate statements, or a statement, report, or other information to comply, or be prepared in accordance, with the climate-related disclosure framework. [highlight added]

The XRB is required to produce a 'financial reporting framework', the XRB website states:

> In New Zealand, certain entities are required by law to prepare financial statements in accordance with accounting standards issued by the XRB. The Statutory Financial Reporting Framework established by the Government determines which entities are subject to this requirement (sometimes called the **"who" question**).
>
> The New Zealand Accounting Standards Framework (the ASF) sets out the XRB's strategy for developing and issuing accounting standards that are appropriate for those entities that have a statutory requirement to prepare financial statements in accordance with accounting standards issued by the XRB (sometimes called the **"what" question**). [bold added][15]

Arguably, the same 'who' and 'what' question should be answered for climate-related disclosures.

Section 12 (c)(ii) (in Box 3 below) suggests the XRB 'can' produce a definition of the climate-related disclosure framework. Subsection (d) states that it must 'develop and implement strategies for the issue of standards in order to provide a framework for the Board's overall direction in the setting of standards' (which, we understand, would include climate standards). See Boxes 3–5.

Box 3: Financial Reporting Act 2013
Note: This is from the version as at 1 January 2022.

Reporting entity
- means an entity whose financial statements, group financial statements, reports, or other information is required by any enactment to comply, or be prepared in accordance, with generally accepted accounting practice or non-GAAP standards; or
- means an entity whose climate statements, group climate statements, reports, or other information is required by any enactment to comply, or be prepared in accordance, with the climate-related disclosure framework.

12 Functions of Board

The Board has the following functions:

(a) to prepare and, if it thinks fit, issue financial reporting standards for the purposes of any enactment that requires —

(i) financial statements or group financial statements to comply, or be prepared in accordance, with generally accepted accounting practice or non-GAAP standards; or

(ii) a statement, report, or other information to comply, or be prepared in accordance, with financial reporting standards:

(aa) to prepare and, if it thinks fit, issue climate standards for the purposes of any enactment that requires climate statements or group climate statements, or a statement, report, or other information to comply, or be prepared in accordance, with the climate-related disclosure framework:

(b) to prepare and, if it thinks fit, issue auditing and assurance standards for—

(i) the purposes of the Auditor Regulation Act 2011 or any other enactment that requires a person to comply with those standards; or

(ii) the purposes of any rules or codes of ethics of an association of accountants where those rules or codes require the association's members to comply with those standards; or

(iii) any other purpose approved by the Minister by notice in writing to the Board:

(c) to prepare and, if it thinks fit, issue authoritative notices for the purposes of—

(i) the definition of generally accepted accounting practice; or

(ii) the definition of climate-related disclosure framework:

(d) to develop and implement strategies for the issue of standards in order to provide a framework for the Board's overall direction in the setting of standards (including implementing a strategy for tiers of financial reporting in accordance with sections 29 to 33):

(e) to liaise with international or national organisations that perform functions that correspond with, or are similar to, those conferred on the Board:

(f) to perform and exercise the functions, duties, and powers conferred or imposed on it by or under this Act and any other enactments.

Box 4: Key elements of the New Zealand Accounting Standards Framework (ASF)

Key elements of the New Zealand Accounting Standards Framework

The ASF has three key elements.

Multi-standards approach	Different suites of accounting standards for two distinct sectors: **for-profit entities** and **PBEs**
Tiered approach	Different accounting requirements for each tier based on cost-benefit considerations: • For-profit entities – **2 tiers** • PBEs – **4 tiers**
Basis for developing each suite of accounting standards	• For-profit entities — accounting standards are based on International Financial Reporting Standards (**IFRS Standards**). • PBEs — accounting standards are based primarily on International Public Sector Accounting Standards (**IPSAS**)for Tiers 1 and 2 and the **XRB's Simple Format Reporting Requirements**[4]for Tiers 3 and 4.

*[1] **Public Benefit Entities (PBEs)** are reporting entities whose primary objective is to provide goods or services for community or social benefit rather than for a financial return to equity holders.*

***Public sector PBEs** are PBEs that are public entities as defined in the Public Audit Act 2001, and all Offices of Parliament.*

*[2] **For-profit entities** for financial reporting purposes are reporting entities that are not PBEs.*

*[3] **Not-for-profit (NFP) PBEs are PBEs** that are not public sector PBEs (e.g. registered charities).*

[4] This term refers to the Tier 3 and Tier 4 PBE Accounting Requirements.

Note: Some entities reporting requirements site outside of the XRB accounting standards framework such as very small companies (and other entities), whose only obligation is to meet IRD reporting requirements (see IRD small company reporting exemption[16]).

Box 5: Financial Reporting Act 2013 (Section 19B)

> *Climate standards*
>
> Heading: inserted, on 28 October 2021, by section 40 of the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 (2021 No 39).
>
> **19B Purpose of climate standards and climate-related disclosures**
>
> The purpose of climate standards is to provide for, or promote, climate-related disclosures, in order to—
>
> (a) encourage entities to routinely consider the short-, medium-, and long-term risks and opportunities that climate change presents for the activities of the entity or the entity's group; and
>
> (b) enable entities to show how they are considering those risks and opportunities; and
>
> (c) enable investors and other stakeholders to assess the merits of how entities are considering those risks and opportunities.
>
> Section 19B: inserted, on 28 October 2021, by section 40 of the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 (2021 No 39).

PART 2: FIVE OUTSTANDING QUESTIONS

Below are five questions that we have attempted to answer to explain our answers to the 15 consultation questions.

2.1 Is the current definition of primary user too narrow?

The Institute has long disliked the term 'primary user' currently embedded in the conceptual framework shaping financial standards. See Figure 36 in Appendix 3(a). In our view it suggests the existence of secondary users, and that these users rate second to primary users. The meaning of primary users (of general purpose financial reports) is in Footnote 4 of the *XRB 2018 Conceptual Framework* as:

> Throughout the 2018 NZ Conceptual Framework, the terms 'primary users' and 'users' refer to those existing and potential investors, lenders and other creditors who must rely on general purpose financial reports for much of the financial information they need.[17]

The Institute believes that the concept of primary users for financial statements is an old fashioned concept (in that the interest and relevance of the information is much wider). If the financial statements were only published for users of the capital market, they would only be published on the NZX website. Today, the financial statements are required to be published on the Company Register, and many of the entities go further than simply uploading their financial statements; 66% of NZX-listed companies in 2020 uploaded their full annual report on the Companies Register (even though there was no obligation to do so). See Table 6: NZSX-listed companies annual report filings found on the Companies Register for 2016, 2019 and 2020 (p. 57) of *Report 17: ReportingNZ: Building a Reporting Framework Fit for Purpose*.[18]

The following key objectives of the accounting standards framework aligns well with the Institute's views on how climate standards framework should be developed;[19]

> (i) to meet user needs – by developing accounting standards that lead to high quality financial reporting that meets the different user needs in the for-profit and public benefit entity (PBE) sectors; and
>
> (ii) to balance the costs and benefits of reporting – by establishing appropriate accounting requirements based on the nature and size of the entity

The XRB, as the Institute understands, will need to design a comprehensive climate-related disclosure framework for New Zealand. With this in mind, we suggest that the current framework should be designed to cater for both mandatory and voluntary preparers, so that non-mandatory preparers are able to also report against the New Zealand standard/s. This may be an assumption on the Institute's part, but if we are wrong, we would like the XRB to reconsider the opportunity that currently exists – to design a climate-related disclosure framework for all preparers and all users.

Importantly, Aotearoa New Zealand has always worked hard to create standards that work for all types of preparers (rather than separate standards for the public sector versus the private sector). If differences become apparent, the standard could easily require disclosures for mandatory reporters within the standard. For example, something like 'if a mandatory climate reporting entity, please disclose this on the first two pages of the climate statement'.

There is no doubt that New Zealand business will benefit from the design of a robust and flexible climate-related disclosure framework. The Institute suggests it is now time for Ministers and policy makers to move the emphasis from standard setting to creating a robust climate-related disclosure framework adopting a whole-of-system approach, one that focuses on the needs of all stakeholders (not just shareholders). Importantly this means looking beyond the XRB and focusing on the user experience.

Although the XRB can create the standards that are needed, and design aspects of the framework from a standard setter perspective, it is the whole regulatory framework that now needs to come together to design, what the Institute calls – the user experience. We need to urgently design a system so that users are able respond quickly, to help Aotearoa New Zealand become more antifragile to a climate changing world. In doing so, together we can engage early with the challenges we face, pivot quickly and appropriately, reduce harm, minimise long-term negative impacts, and recognise and realise every opportunity that lies ahead.

To support this view, the Institute draws the XRBs attention to s 19B(c) of the Financial Reporting Act 2013 (see Box 5 below), where the purpose is not just to 'provide', but to 'promote' climate-related disclosures for the public good and in particular, refers specifically to stakeholders. This means, in our view, not just the promotion of mandatory reporting (which arguably does not need promotion as it is a requirement), but more broadly promoting climate-related disclosures to non-mandatory reporters.

The Institute believes that the XRB does not need to divide users of the climate-related disclosures framework into primary users and secondary users. We also think focusing on primary users, rather than stakeholders more broadly, may go against the intent of the law, making the XRB vulnerable to a court action.

The Institute understands why standard setters may prefer to keep the 'user' definition narrow (as it may help the preparer to focus on the information needs of a select number of users, and as a consequence apply the existing 'financial statement lens of materiality' to those users (e.g. what is material to say shareholders may be easier to articulate than stakeholders). However, in practice, the Institute would argue that a mandatory regime puts in place higher expectations not just on 'reporters' but also on 'standard setters' (i.e. XRB), and those responsible for ensuring financial markets are fair, efficient and transparent (i.e. the Financial Markets Authority [FMA] and NZX). Furthermore, as noted earlier, while the financial-disclosures framework was designed to meet the needs of the capital market, the climate-related disclosures framework has been put in place by government to enable all users to reduce emissions and adapt to climate change.

The test is 'who' is going to be making 'what' decisions. If there is a reason to define users in the climate-related disclosure framework, the Institute suggests a much wider definition is called for – something along the lines of: climate-related information users include investors, bankers, insurance providers, suppliers, customers, employees, NGOs, neighbours, councils, government and citizens. The Institute's solution to the 'materiality lens' is to simply define 'material climate risks', 'material climate omissions', 'material climate targets' and 'material climate metrics', and redefine 'user' to include all users (see suggested definitions in Tables 1 and 2).

2.2 How do the three regular external legal documents work together?

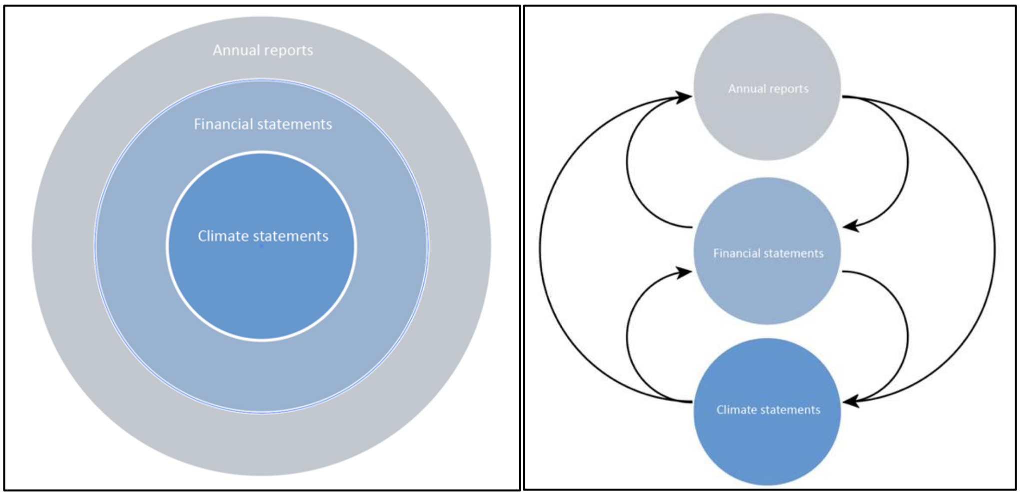
It is unclear how these documents are intended to work together. For instance, it is unclear whether climate statements are;

(i) Supporting documents designed to inform financial statements and annual reports (left in Figure 4);

(ii) Standalone documents to be read and understood individually; or

(iii) Three standalone documents working together to inform one another (e.g. climate statements also inform: preparers of financial statements, assurers of financial statements, and the board and management when they prepare the management commentary (to go in the annual report) (right in Figure 4)).

Figure 4: Strategic options for considering the relationship between three legal reporting documents



The Institute believes they should be treated as three standalone documents (right in Figure 3). The XRB is responsible for setting standards for two of them (financial statements and climate statements), and both these statements can and should be included as part of the annual report. If we are correct, that means the user does not need to follow the primary user narrative, and the XRB can develop its own definition of user and preparer of climate statements. The Institute believes the ISSB has been required to define 'user' narrowly given its constitution (see Figure 2 above). The XRB is not constrained, and if anything our legislation demands a broader definition.

Annual reports act as a mechanism for management to describe the organisation's processes in place to address these factors. The Institute's own review of TCFD disclosures, *Working Paper 2021/06 – Reviewing TCFD information in 2017-2020 Annual Reports of NZSX-listed companies* (June 2021), found an increase in the number of companies that include dedicated TCFD sections in their annual report (see Table 5 in *Working Paper 2021/06*).[20]

Below are a few additional suggestions:

(i) Require climate statements to be published in annual reports of mandatory preparers
The Institute considers mandatory preparers of climate statements should be required to publish their climate statements in the entity's annual report. The current requirements (highlighted in Box 6) provide a solid starting point, however still leave climate reporting entities (CREs) with the option to only include a link directing users to the statement. The XRB could provide stronger guidance, making it a requirement for preparers to include their climate statement in their annual report or even an opt-out requirement (to explain why they are not following best practice).

Box 6: Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021

> **Section 461ZJ - Information about climate statements of climate reporting entities to be made available in annual report**
> (1) This section applies to every climate reporting entity that is required to prepare—
> (a) climate statements or group climate statements under any of sections 461Z to 461ZB; and
> (b) an annual report under the Companies Act 1993 or any other enactment.
>
> (2) The climate reporting entity must include, in its annual report for the period ending on the balance date,—
> (a) a statement that the entity is a climate reporting entity for the purposes of this Act; and
>
> (b) a copy of the climate statements or group climate statements prepared by the entity under any of sections 461Z to 461ZB, or the address of (or a link to) the Internet site where a copy of those statements can be accessed. (highlight added)

(ii) Require the 'nature of business' statement to be included in the climate statement

The 'nature of the business' statement is currently required to be included in all annual reports under s 211: Contents of annual report of the Companies Act 1993 (see excerpt in Box 7 below). It could become a requirement of the standards – for CREs to also include the 'nature of the business' statement in their climate statement. This would be a relatively easy step to help align climate statements with annual reports, building a natural bridge between the two.

Adding the 'nature of the business' statement to climate statements would help meet the purpose of climate statements, which is 'to enable investors and other stakeholders to assess the merits of how entities are considering those risks and opportunities' (see s 19B (c) of the Financial Reporting Act 2013, see Box 3 above). If users know the nature of the business, that will help then assess the 'merits'. Carrying over the nature of the business statement to the climate statements would provide real benefit to users, at no cost to preparers.

In theory, as this information is already required by law to be presented in the annual report, it would not require any additional work by the preparer. However, in practice, the nature of business statements in annual reports are often difficult to find. See for example, Table 2b: Nature of business in *Working Paper 2018/01 – NZSX-listed Company Tables* (March 2018, p. 26). Reviewing existing statements in annual reports, the Institute found that 54 out of the 129 NZSX-listed entities were difficult to classify by nature of business using *1292.0 – Australian and New Zealand Standard Industrial Classification (ANZSIC) 2*006.[21] If the XRB was to require the nature of business statement to be repeated in a climate statement (limited to a maximum of 50 words), it would enable the ability to analyse and assess the merits of how industries are considering those risks and opportunities, which in turn, is likely to help Aotearoa New Zealand meet the domestic-aligned 2050 emissions targets (as stipulated in legislation).

Box 7: Companies Act 1993

> **Section 211 – Contents of annual report**
> (1) 'Every annual report for a company must be in writing and be dated and, subject to subsection (3), must—
> (a) describe, so far as the board believes is material for the shareholders to have an appreciation of the state of the company's affairs and will not be harmful to the business of the company or of any of its subsidiaries, any change during the accounting period in—
> (i) **the nature of the business of the company or any of its subsidiaries**; or
> (ii) the classes of business in which the company has an interest, whether as a shareholder of another company or otherwise; and
> (b) include any financial statements or group financial statements for the accounting period that are required to be prepared under Part 11, Part 7 of the Financial Markets Conduct Act 2013, or any other enactment (if any); and
> (3) The annual report of a company need not comply with any of paragraphs (a), and (e) to (j) of subsection (1), and subsection (2) **if shareholders who together hold at least 95%** of the voting shares (within the meaning of section 198) agree that the report need not do so. [bold added]

(iii) Consider the intent of Dr Duncan Webb's Companies (Directors Duties) Amendment Bill

If the Companies Act 1993 was to be reviewed in the future, the Institute suggests this section could be significantly improved to reflect the current thinking and needs of users, and to provide more clarity to preparers. Dr Duncan Webb's Companies (Directors Duties) Amendment Bill contains key amendments to s 131 of the Companies Act, introducing additional 'recognised environmental, social and governance factors', which directors 'may' bear in mind. The Institute supports the Bill, but thinks it could go further, ideally changing 'may' to 'must'. The aim should be to design a system that is not unnecessarily costly or over-regulated, but that matches the needs of preparers, assurers and users.

(iv) Terminology – use FMA climate reporting entity, to enable the standard to be more durable
Ideally, the XRB should create flexibility for other types of mandatory reporters of climate statements in the near future. The Institute expects this will be a natural consequence of climate change impacts being felt and more urgent action being sought. Therefore, the Institute suggests the term FMA climate reporting entity (or FMACRE for short) is used.

The proposed standard lacks solid alignment to legally enshrined domestic climate commitments and targets. The Institute recognises that, although following global models of best practice is usually beneficial, it is not necessarily the most effective solution for Aotearoa New Zealand. It is critically important that the standards connect and align with the current legislation and broader public policy (e.g. the work of MfE). It is important to acknowledge that the recent legislation was fully supported and passed by the two major parties in the House of Representatives, therefore creating a durable public policy platform on which to build the intent of the standards.

The scope of the proposed standard is too narrow. The Institute is concerned that the standard's exclusion of public sector entities will impede the suitability of disclosure requirements for those entities. An unintegrated approach, in this regard, may ultimately (and unnecessarily) result in a non-future-proofed climate standard.

The proposed standard is not prescriptive enough to prevent entities using climate change to hide poor business management or other issues. The Institute is concerned that this represents an emerging form of 'washing', and suggests that the XRB should consider this risk when deciding the level of a standard's specificity.

The next area to drive the reporting framework is likely to be nature-based financial disclosures – see Taskforce of Nature-based Financial Disclosures (TNFD).[22] The framework being designed today therefore needs to make space to enable nature-based financial disclosures to emerge in the short to medium term.

2.3 How does purpose, strategy and risk impact the design of the proposed standard/s?

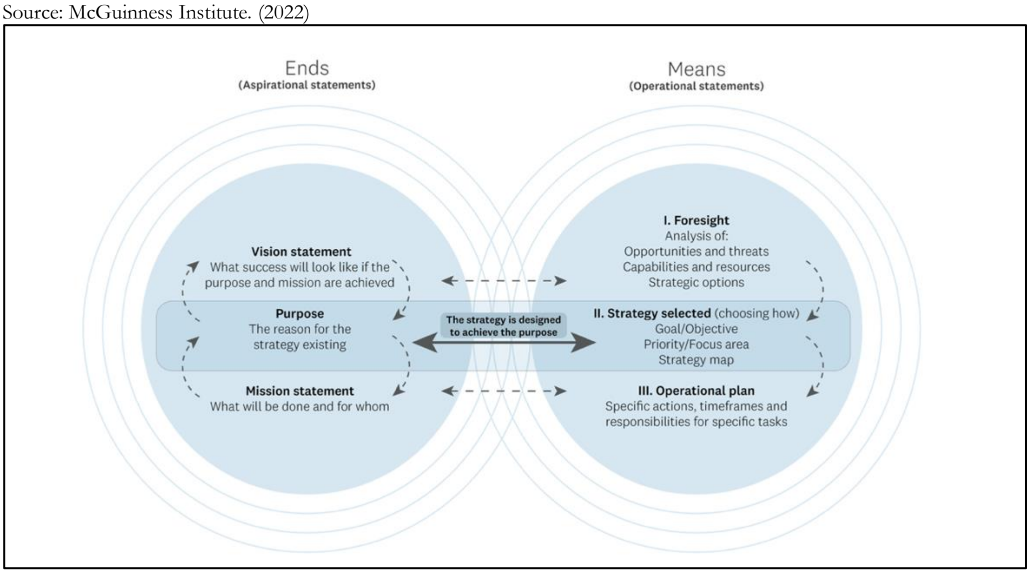
The Institute appreciates that this consultation document does not relate to risk management directly, however there is an important link between strategy and risk management that should be explored. The issue that the Institute wishes to raise is where directors' responsibilities lie, in particular relating to their need to keep the strategy of a business confidential.

Further, the Institute believes the distinction between data (in this case, scenarios) should not be developed by standard setters, in much the same way that there must be a separation of tasks between preparers and assurers. One of the strengths of the reporting framework is that assurance is separate from report preparers.

The Institute does not think the existing TCFD framework requires an organisation to publish a strategy for climate change or their business strategy; what they are required to do is simply compare their strategy (which can remain confidential) with a range of climate scenario/s. The disclosure is to state they have undertaken this work, not to explain in detail how they will respond. Importantly, directors are required to disclose they have investigated at scenarios, compared business models, and identified possible risks and opportunities. There should not be an obligation on them to share the resulting strategy, although, the Institute expects many will want to, in order to improve their reputation or explain their strategy to stakeholders, in particular customers and suppliers.

Figure 5 (below) illustrates how strategy and purpose have a cause and effect relationship. The dotted lines indicate the less direct relationships, such as the role of foresight and planning.

Figure 5: The distinction between aspirational statements and operational statements
Source: McGuinness Institute. (2022)



2.4 What scenarios should be used to stress test the opportunities and risks of entities?

The Institute generally agrees with the XRB's definition of scenarios, the purpose of scenario analysis and the identified high-level challenges. However, the Institute holds three concerns around the development and implementation of scenarios, which are discussed below.

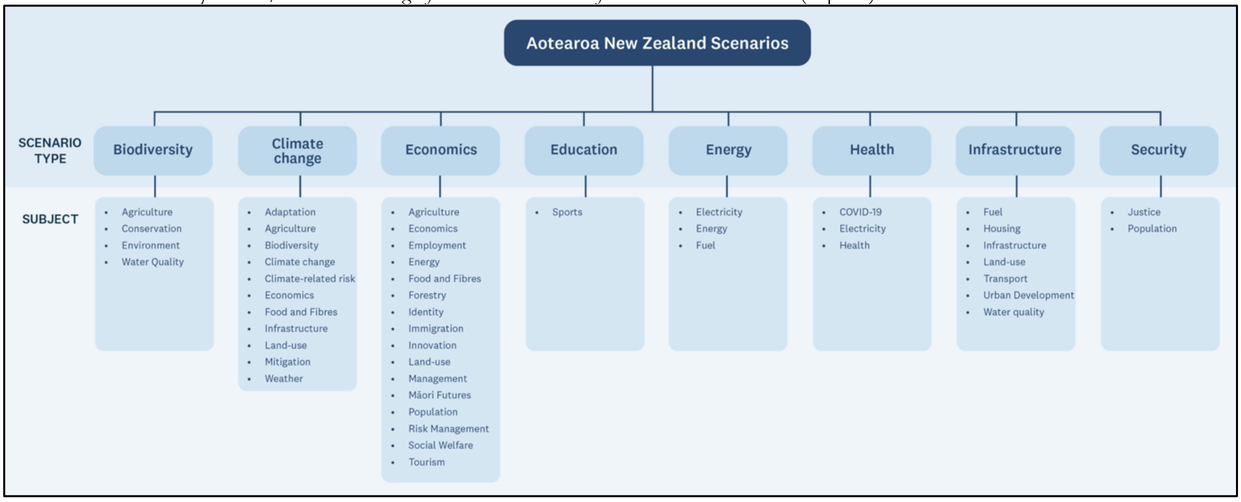
(i) The need for a New Zealand specific reference climate scenario
Reference climate scenarios are important for three main reasons:

1. Regarding the NZ CS1 disclosure, it is key to ensure that preparers have useful, relevant and comparable scenarios for assessing their business strategy (and therefore its resilience to climate change).

2. It is crucial to ensure that users (citizens, councils, iwi, departments and businesses) have the best scenarios available to inform decision-making. The ownership, accessibility and reliability of climate data/information are areas of concern that would ideally be made more robust via the development of a reference climate scenarios specific to Aotearoa New Zealand, which in addition to the IPCC scenarios, should both be assessed by the organisation.

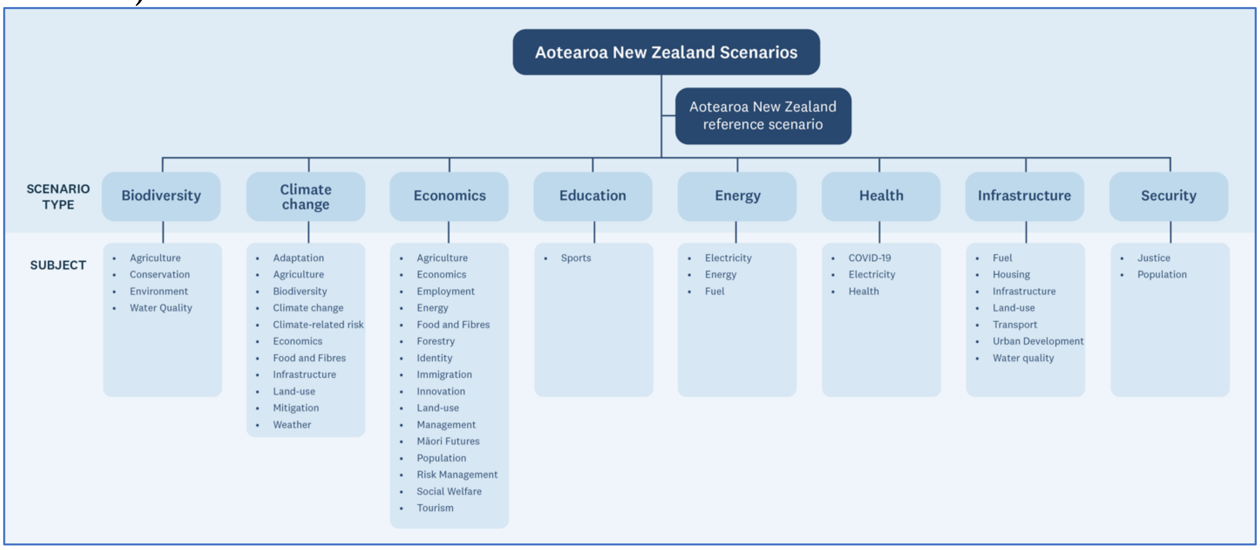
3. The establishment of reference climate scenarios would help develop and push the idea of an integrated climate scenario framework for Aotearoa New Zealand. Figures 6 and 7 (below) illustrates an overview of what the existing framework looks like today (a loose set of scenarios) verses an integrated scenario framework where the government endorses and highlights a unique reference climate scenario specific to New Zealand. The Institute believes NIWA is the best organisation to develop regular Aotearoa New Zealand reference climate scenarios. Such an approach would successfully embed foresight and strengthen risk management across Aotearoa New Zealand's public and private sectors.

Figure 6: Aotearoa New Zealand reference climate scenario framework (the current framework)
Source: See *Discussion Paper 2021/05 – Establishing reference climate scenarios for Aotearoa New Zealand* (in press)[23]



The Institute found 183 national scenarios were published on or before 4 November 2021; this was more than we expected. View the table on our website.[24] The scenarios are analysed in *Working Paper: 2021/10: Analysis of Existing Scenarios in Aotearoa New Zealand*, and key figures are included in Appendix 7. Together they illustrate the nature and breadth of scenarios that currently exist and indicate the number of potential bespoke scenarios available to preparers. Of note, 58 of the 183 national scenarios explicitly mentioned climate change, see Figure 21 in Appendix 7.

Figure 7: Aotearoa New Zealand reference climate scenario framework (the Institute's proposed framework)



(ii) The need for a global scenario

In order to have legitimacy globally, the Institute believes an IPCC scenario (2°C scenario is our preference) must be included. There are also benefits from comparing the insights globally for importers and exporters, and of course the broader insights for directors more generally.

(iii) Risks of bespoke scenarios

The Institute holds concerns that the development and implementation of 'bespoke […] entity-specific' scenarios would not enable meaningful comparison, and therefore would dilute the benefits of effective reporting and further reduce the availability of climate-related data that currently exists within the public arena – further adding to the research gap. However, provided the other two are included – an Aotearoa New Zealand reference climate scenario and an IPCC scenario), we consider the risk is managed and that there exists real benefits from entities preparing their own bespoke scenarios.

All three together, deliver a package of skills and insights that the Institute believes will deliver the best outcome. As noted in recommendation 11 (see below):

> Preparers should be required to stress test their business model against the following:
>
> A: Domestic targets, assessments and plans are required to take into account:
> - The domestic-aligned 2050 emissions target
> - The latest *National Climate Change Risk Assessment* (NCCRA)
> - The latest emissions reduction plan (ERP)
> - The latest national adaptation plan (NAP) (yet to be published)
>
> B: Scenarios to take into consideration by entities when assessing risks:
> - Consider the latest Aotearoa New Zealand reference climate scenario (mandatory)
> - Consider the IPCC global warming scenario (ideally 2°C) (mandatory)
> - Consider one or more scenario of their choice (which must be listed). This could be a national, local or industry scenario/s. (voluntary)

2.5 Where are climate statements to be lodged?

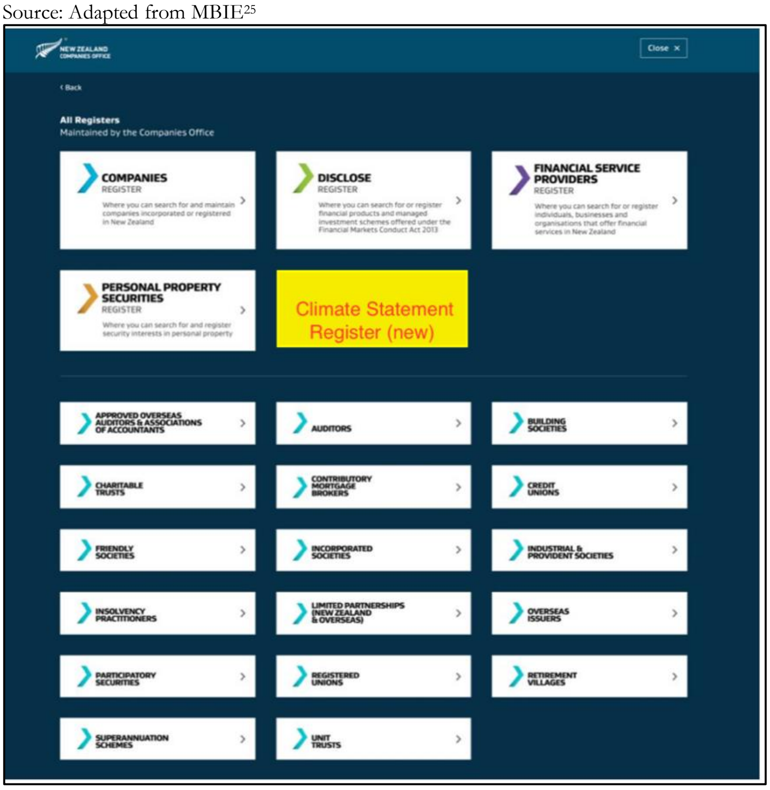
Although this consultation has not asked for comment on where climate statements should be lodged, the Institute is of the view that a new Climate Statement Register should be created and managed by the Companies Registrar. This will take time, hence why we raise this issue here.

The Institute's view is that more entities will be required to report in a mandatory manner, such as Crown financial institutions (via letters of expectation), while others will simply wish to report, given it is the right thing to do and/or benefits their brand. By lodging climate statements, regulators will be able to review and analyse the register to understand how the standards are working in practice. This process will ensure that the standards are meeting their purpose, as outlined under legislation. It will also provide the authors of the NCCRA, ERP and NAP and other climate change bodies to gain insights and as a result, develop better public reports and plans.

The Institute expects that there will be many voluntary reporters who wish to produce climate-related disclosures in line with the standard, and are concerned that those entities might be disadvantaged if only mandatory reporters are able to lodge their climate story on the public register. As of right, we believe voluntary reporters should have the same opportunity to tell their climate story as mandatory reporters (many mandatory reporters are simply mandatory because of their size, or because they are listed on the stock exchange). If voluntary reporters have had their climate statements assured (up to the level set as mandatory reporters), we believe they should then be able to lodge their climate statements on the new Climate Statement Register.

The Institute considers Aotearoa New Zealand needs a design a new Register of Climate Statements that is easy to find and access, and can be extended to include voluntary reporters and other mandatory reporters over time. Figure 8 illustrates the existing Register, where a new Climate Statement Register could easily be added.

Figure 8: Registers currently managed by MBIE (including the proposed new register)
Source: Adapted from MBIE[25]



Background

The Explanatory Note in the Bill mentioned that the climate statement should be lodged with the Register of Financial Service Providers. The Institute and others argued before the committee that it was better to leave it to the Registrar of Companies to decide where it should be lodged (rather than denote a specific existing register, see our submission: *Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill* (28 May 2021).[26]

This is the situation today:

- Box 6 illustrates what was in the Explanatory Note of the Amendment Bill 'to lodge those statements with the Registrar of Financial Service Providers'.
- Box 7 sets out the solution; for statements to be lodged 'within four months after the balance date' and sets out a range of penalties for contraventions under this part of the Act.
- Box 8 defines the meaning of 'Registrar'.
- Box 9 illustrates that the Registrar of Financial Service Providers could be different from the Registrar of Companies (although the initial Registrar of Companies was legally required to become the first Registrar of Financial Service Providers). We understand the legislation implies the authority to appoint the Registrar for the Financial Service Providers is determined by the chief executive of the Public Service Commission, meaning that the Registrar could be different.
- Box 10 illustrates what the current Financial Service Providers register looks like. The screenshot is from Financial Service Providers register managed by the Companies Office (using Westpac as an example).

The Institute's view is that the Financial Service Providers Register could be adapted in the following way:

1. The Financial Service Providers Register recognises a new item by adding a new filing: '*Filing name*: Climate Statement, and the *Registered date*: xx/xx/xxxx.

2. When a user selects Climate Statement with their cursor, the user is taken directly to the new Climate Statements Register (hence the climate statements is only uploaded once).
3. The new Climate Statements Register (an addition to Figure 7) should then be searchable by term, by entity legal name and by Business Industry Classification Code (BICC). Note: Unlike the financial statements, that include the annual report, we recommend only the Climate Statement is uploaded. Otherwise it will create confusion over what is a climate statement and what is not. This is particularly relevant for assurance purposes, to clarify what is being assured under the new regime (as distinct from an auditor's report attached at the end of the financial statements).

Box 6: Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill [Explanatory note][27]

Part 1
Amendments to Financial Markets Conduct Act 2013

Clause 3 provides that *Part 1* amends the Financial Markets Conduct Act 2013.

Clause 4 amends the overview in section 5 and *clause 5* amends section 6, which is the main interpretation section.

Clause 6 amends section 351 in relation to listed issuers. Existing section 351(1)(ab) allows regulations to be made that remove certain listed issuers from the list of FMC reporting entities under section 451(1)(d) and provide for replacement or modified financial reporting requirements to apply to those listed issuers. Because a person must be an FMC reporting entity to be a climate reporting entity under the new provisions that this Bill inserts into the Act, *new section 351(1)(ab)(ii)* is inserted so that the regulations may provide for replacement or modified climate-related disclosure requirements for those listed issuers.

New Part 7A

Clause 7 is a key provision, inserting *new Part 7A* into the Act. *New Part 7A* contains climate-related disclosure requirements for certain FMC reporting entities considered to have a higher level of accountability under existing section 461K. These entities are defined in *new section 461O* as climate reporting entities. Broadly, *new Part 7A* provides for climate reporting entities to prepare climate statements in accordance with climate standards issued by the XRB, to obtain an assurance engagement in relation to those statements to the extent that those statements are required to relate to greenhouse gas emissions, to lodge those statements with the Registrar of Financial Service Providers (the **Registrar**), and to keep CRD records.

Box 7: Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill [Registrar] – which is yet to become part of the Financial Markets Conduct Act 2013[28]

Note: This is from the version as at as at 28 October 2021. The amendments from the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 are yet to be incorporated into the Financial Markets Conduct Act 2013, hence the image below is indicative only.

Subpart 5—Lodgement of climate statements

461ZN Lodgement of climate statements

(1) Every climate reporting entity that is required to prepare climate statements or group climate statements under any of **sections 461W to 461Y** must ensure that, within 4 months after the balance date of the entity, copies of those statements are delivered to the Registrar for lodgement.

(2) Every manager that is a climate reporting entity in respect of a registered scheme must ensure that, within 4 months after the balance date of the scheme, copies of the climate statements that are required to be prepared under **section 461Z** are delivered to the Registrar for lodgement.

(3) A climate reporting entity that contravenes this section commits an offence and is liable on conviction to a fine not exceeding $50,000.

(4) The offence in this section is an infringement offence (*see* subpart 5 of Part 8).

461ZO Information about climate statements of climate reporting entities to be made available in annual report

(1AAA) This section applies to every climate reporting entity that is required to prepare—

(a) climate statements or group climate statements under any of **sections 461W to 461Y**; and

(b) an annual report under the Companies Act 1993 or any other enactment.

(1) The climate reporting entity must include, in its annual report for the period ending on the balance date,—

(a) a statement that the entity is a climate reporting entity for the purposes of this Act; and

(b) a copy of the climate statements or group climate statements prepared by the entity under any of **sections 461W to 461Y**, or the address of (or a link to) the Internet site where a copy of those statements can be accessed.

(3) A climate reporting entity that contravenes this section commits an offence and is liable on conviction to a fine not exceeding $50,000.

(4) The offence in this section is an infringement offence (*see* subpart 5 of Part 8).

(5) In this section, **annual report** includes a concise annual report.

Subpart 7—Civil liability for certain contraventions of this Part

461ZS Part 7A climate-related disclosure provisions

(1) All of the provisions specified in **subsections (3) and (4)** are **Part 7A** climate-related disclosure provisions.

(2) A contravention of any of the provisions listed in **subsection (3)** may give rise to civil liability (*see* subpart 3 of Part 8), including a pecuniary penalty not exceeding $1 million in the case of an individual or $5 million in any other case.

(3) For the purposes of **subsection (2)**, the provisions are the following:

(a) **section 461S** (climate reporting entities must keep proper CRD records):

(b) **sections 461W to 461Z** (climate statements and group climate statements must be prepared):

(d) **section 461ZN** (climate statements must be lodged).

(4) A contravention of **section 461U** (CRD records to be kept for 7 years) may give rise to civil liability (*see* subpart 3 of Part 8), including a pecuniary penalty not exceeding $200,000 in the case of an individual or $600,000 in any other case.

Box 8: Financial Markets Conduct Act 2013 [Registrar][29]

Registrar means the Registrar of Financial Service Providers appointed under section 35 of the Financial Service Providers (Registration and Dispute Resolution) Act 2008

Box 9: Financial Service Providers (Registration and Dispute Resolution) Act 2008[30]

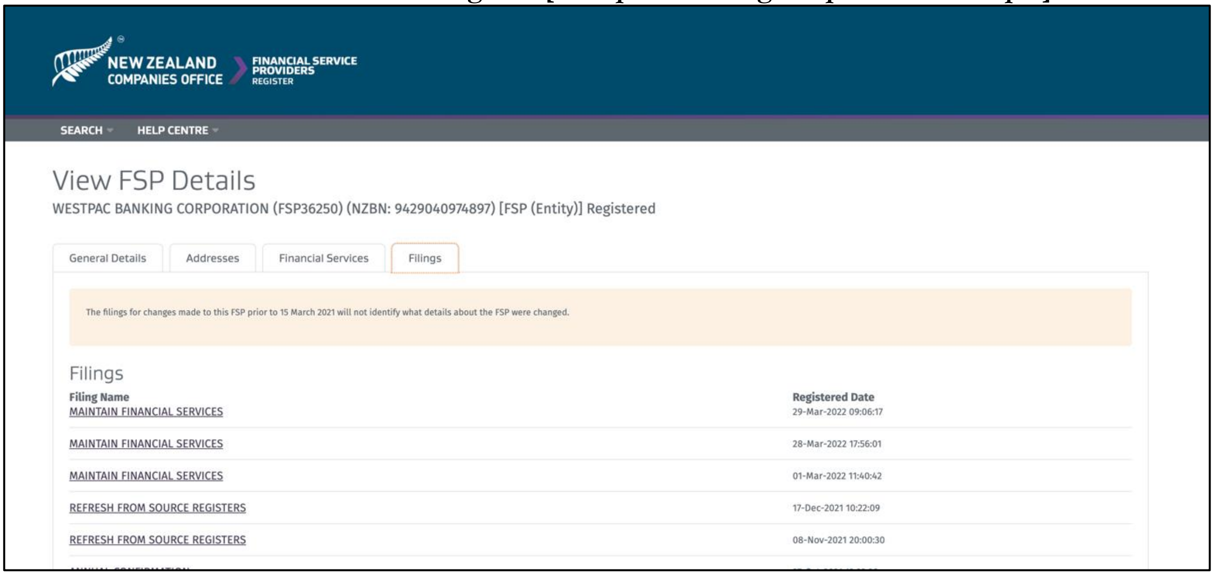
Registrar of Financial Service Providers

35 Appointment of Registrar

(1) The chief executive must appoint a Registrar of Financial Service Providers under the Public Service Act 2020.

(2) The person holding office as Registrar of Companies under the Companies Act 1993, immediately before the commencement of this Act, is deemed to have been appointed as the first Registrar of Financial Service Providers in accordance with this section.

Box 10: Financial Service Providers register [Westpac Banking Corporation example]



Penalties and Contraventions under the Act

We believe the Climate Statement Register should:

1. Publish a list of all entities that contravened the Act (with penalties changed) annually in the public arena on their website (see for example, contraventions in Box 7).
2. Require any entity that is charged a penalty to disclose that penalty in the next five consecutive climate statements.

Content of a Climate Statement

A Climate Statement should not be lodged for public use unless it is verified as containing the following key information:

- That it is a climate statement and contains the appropriate assurance practitioner's report,
- The document is in one pdf (the statement and the assurance report are both included), is searchable and contains no other information (in other words it is only a climate statement),
- That the following key data is found on the front two pages, including:
  - The name 'Climate Statement',
  - The date (and period) to which the climate statement relates,
  - The full legal name of the company/entity,
  - The nature of business statement (see discussion in Section 2.2 above),
  - If listed on NZX, a short statement that it is listed on NZX and the relevant code (e.g. NZK for New Zealand King Salmon Investments Limited),
  - Its business industry classification,[31]
  - If a company, list its company number: (e.g. for NZKS it is 2161790),
  - State its NZBN (e.g. for NZKS it is 9429032611540),

- The type of preparer: whether it is a voluntary or mandatory reporter. This is to future proof the register. For example, it is a mandatory reporter, something like: 'The company is required under law [add law] to provide a climate statement',
- That the Climate Statement is prepared using the XRB standards and guidance documents (and list these), and
- That any penalty (under this part of the Act) be disclosed in the entity's climate statements for five consecutive reports (i.e climate statements). See examples of contraventions in Box 7 above.

The XRB, could also include similar requirements in their standards and guidance, to provide preparers certainty and help verifiers (responsible for verifying and lodging climate statements) a faster and more effective streamlined experience. In other words setting the bar high at the front end, rather than rejecting climate statements just before they were expected to be lodged.

3.0 Answers to specific consultation questions

The following are the Institute's answers to the questions in the *2022 Strategy, and Metrics and Targets Consultation document (NZ CS 1).*

PART ONE: STRATEGY

Question 1: Do you think the proposed Strategy section of NZ CS 1 meets primary user needs?
a) Do you think that the information in this section of the standard will provide information that is useful to primary users for decision making? If not, please explain why not and identify any alternative proposals.

b) Do you consider that this section of the standard is clear and unambiguous in terms of the information to be disclosed? If not, how could clarity be improved?

The Institute believes there is sufficient information to be useful for decision making. However, this is only for those entities that fall within the XRB's narrow definition of primary users (see below).

> Primary users are those to whom the disclosed information is targeted, to directly inform their decision making. Other users are wider stakeholders who will likely also have an interest in the disclosed information.

This definition, in context of the Institute's recent case study (*Discussion paper 2022/02: New Zealand King Salmon Case Study: A financial reporting perspective*) identifies a challenging and confusing area. In the Institute's experience it has been extremely difficult to draw a distinction between users 'to whom the disclosed information is targeted' and users 'who will likely also have an interest in the disclosed information'. For this reason, the Institute believes that the term 'primary user' should be removed from the climate-related financial disclosures. See discussion in Section 2.0, in particular Question 1) above. Furthermore, ensure directors' responsibilities are aligned and strengthened under the standard, rather than made less clear. See discussion in 2.0 (C) above.

c) Do you consider that this section of the standard is adequately comprehensive and achieves the right balance between *prescriptiveness* and principles-based disclosures? If not, what should be removed or added to achieve a better balance? [italics added]

Climate-related information must be able to flow smoothly between preparers, users and assurers. In practice, the standard should be comprehensive and specific enough to ensure that information is accurate, meaningful, reliable, and useful. The standard, then, must prioritise aligning the needs and demands of both preparers and users.

The Institute is concerned that the use of the word 'prescriptiveness' adds unnecessary tension as it is rooted in regulation. Instead, the Institute believes that 'specificity' is clearer and should be used instead.

The Institute believes that the standards should be sufficiently specific for preparers, users and assurers. This means: (i) specific in order for preparers to gather, collate and report against, (ii) specific in order for users to read, understand and make decisions and (iii) specific in order for assurers to provided verifiable information (so that the content of the statements can be trusted and relied upon).

The XRB needs to work hard to prevent climate washing of financial statements; preparers should not be able to hide poor business management by hiding behind climate change.

Lastly, it is critically important to ensure the starting points for CREs are as comparable as possible. This means that the standard should establish and use consistent terminology (for example, see our proposed definitions in Table 1) and IPCC scenarios, and domestic-aligned 2050 emissions targets (see recommendation 10).

Question 2: Do you agree that a standalone disclosure describing the entity's business model and strategy is necessary? Why or why not?

Yes, the Institute agrees that this is necessary. This information supports users to understand, contextualise and query existing business models. Transparency for stakeholders is crucial, and given the significant public policy implications of CRE's climate transitions, equipping users with this information would also support and encourage broader stakeholder engagement. The Institute expects that this information will already be widely disclosed across many entities – however, it is likely to be disclosed in various locations (XRB announcements, annual reports, integrated reports, sustainability reports etc). Through consistent standalone disclosures, such information can be meaningfully compared and accessible in a complete and comprehensive manner.

Furthermore, it is important that standalone disclosures are done at a strategic level, not at an operational level. This point is discussed in Table 2, p. 9 of *Discussion paper 2022/02: New Zealand King Salmon Case Study: A financial reporting perspective*.

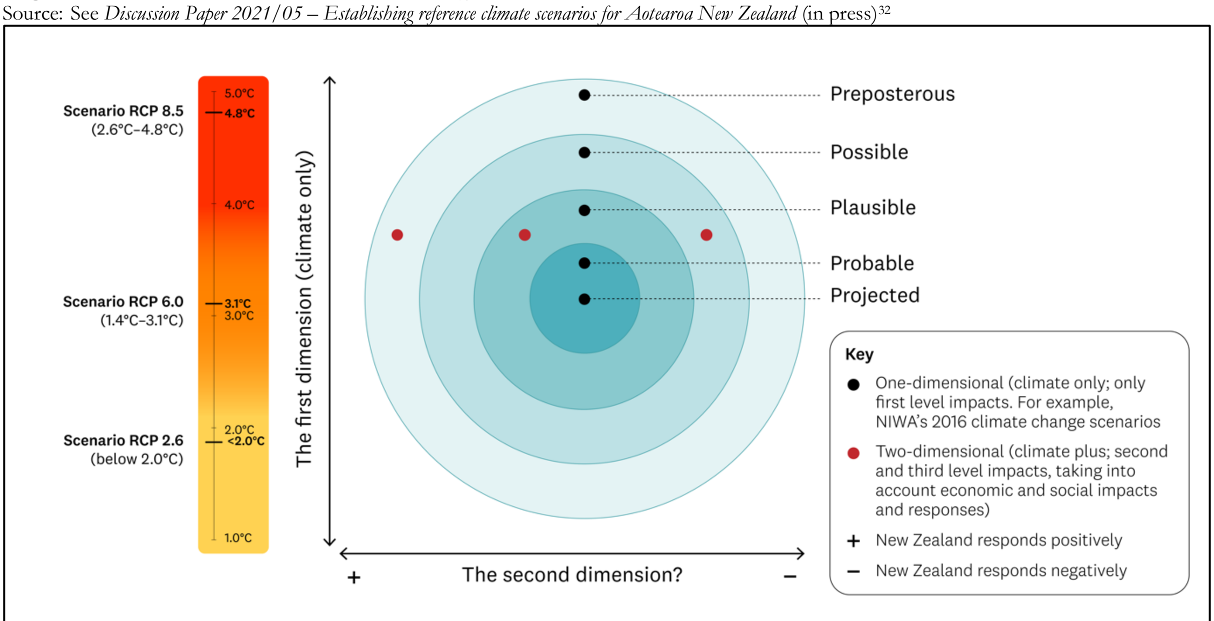
Question 3: Do you agree that we should not prescribe which global mean temperature increase scenario(s) should be used to explore higher physical risk scenarios (such as 2.7°C and/or 3.3°C or by using Representative Concentration Pathways (RCP) such as RCP4.5 or 6), but rather leave this more open by requiring a 'greater than 2°C scenario'? Why or why not?

The Institute suggests CREs should be required to report on specific scenarios set out by the IPCC, such as RCPs or broader scenario categories. The primary benefit of using existing scenarios, particularly those used by the IPCC, is a clear understanding of the physical impacts of different pathways, making reporting on physical risk far easier than if an entity uses bespoke scenarios to assess this information. The use of widely understood scenarios further supports comparability across disclosures (horizontal analysis) and mitigates the risk of CREs opting to use scenarios favourable to their sector. This also allows for more thorough stakeholder involvement and interrogation.

The defining characteristics that make up climate scenarios can be categorised as 'dimensions'. Due to the multifaceted and complex nature of society, politics, technology, the market and climate change, there are many such characteristics, and it is difficult to decide on the characteristics to underpin scenarios. One-dimensional scenarios focus solely on the physical impacts of climate change. Two-(or more) dimensional scenarios take into account socioeconomic, technological and political factors associated with climate change. Figure 9 (below) illustrates these dimensions.

Figure 9: The RCP ruler and cone of plausibility

Source: See *Discussion Paper 2021/05 – Establishing reference climate scenarios for Aotearoa New Zealand* (in press)[32]



The Institute believes that, to fulfil the scenario requirement in Strategy (c), two-(or more) dimensional scenarios are required. The main reason is that these have far more influence on decision makers, as they will consider how current (and future) systems (information, instruments and institutions) will respond to various scenario outcomes. Two-(or more) dimensional scenarios will also help reduce confusion over roles of responsibility and accountability in the long term. Using existing IPCC scenarios supports assessing the linkages across the physical and socioeconomic impacts of climate change (two or more dimensions). The IPCC's Shared Socioeconomic Pathways link directly with RCP scenarios, supporting broader and more comprehensive reporting.

The Institute acknowledges debate over the utility of particular high-range scenarios, such as RCP 8.5, but considers it unlikely many CRE will choose to report against this scenario in isolation.

The Institute is also concerned with the increasing frequency of supply chain risks. While the Institute appreciates that most of issues in this regard stem from the pandemic and Ukraine war, these events are simply precursors for the types of supply shocks that can be expected from climate change. For these reasons, the Institute suggests that the proposed standard should incorporate supply chain risks into the scenarios.

Lastly, determining the line between domestically and globally aligned scenarios is an area that must be considered. Scenarios that enable global comparability are likely to be less domestically relevant (and vice-versa). For this reason, the Institute recommends that, while using an IPCC scenario is essential, an Aotearoa New Zealand reference climate scenarios should also be required (ideally prepared by NIWA) and form part of the standard.

Question 4: We do not require transition plans to be tied to any particular target such as net zero and/or 1.5°C, but that entities will be free to disclose this if they have done so. Do you agree? Why or why not?

Disagree. The Institute suggests that CREs should be required to link transition plans to the domestic-aligned 2050 target set out in the Climate Change Response (Zero Carbon) Amendment Act 2019 on a comply-or-explain basis. These targets directly influence Emissions Trading Scheme settings through the Climate Change Commission's emission budget process.

The passage of the Act by an overwhelming, multi-partisan majority (119 ayes/1 no) suggests these targets will be an enduring feature of Aotearoa New Zealand's climate response, and given that durability, the standard should align closely with the Act. CREs failing to align transition plans with the domestic-aligned 2050 emissions target should be required to explain why not.

The Institute believes that more ambition is needed. Tying transition plans to the domestic-aligned 2050 emissions target would be the beginning of an integrated and strategic approach. The Institute also suggests that, in respect of integration and strategy, adaptation plans should be required to be considered by preparers.

Question 5: Do you have any views on the defined terms as they are currently proposed?

Speaking generally, the aim of the standard's associated terminology and language is to consistently communicate the disclosure requirements to a range of entities. Therefore, in the Institute's view, terminology and language must be common, future-proofed (e.g. avoids currently fashionable terms), broad and inclusive. The Institute is concerned that the proposed terms may not be entirely appropriate given the narrow scope of what constitutes a 'primary user'. For example, we are not sure if you can argue a public sector entity has a 'primary user'. The Institute provides further explanation on this matter in the answer to Question 11.

Furthermore, the Institute would like to acknowledge the use of terminology contained in MfE's *Te hau mārohi ki anamata Transitioning to a low-emissions and climate-resilient future* (2021. An excerpt of the glossary can be viewed in Appendix 5.

The Institute is concerned that the phrasing of the language, terminology and disclosures implies they are solely for for-profit entitles, rather than sufficiently broad to cover both private and public sector entities (including those that are not for-profit). The standards should be stress-tested against entities in both the public and private sector.

The Institute is concerned that public sector entities may have unintentionally been excluded from the scope of the standard (see strikethrough red text removing the word 'company'). The Institute believes that this standard is one of the main tools moving Aotearoa New Zealand toward meeting domestic aligned targets as set out by the Climate Change Response (Zero Carbon) Amendment Act 2019. Therefore, it should signal integration and relevance for the public sector to be included, especially regarding transition and adaptation plans.

Table 1: Proposed taxonomy for the Strategy section of NZ CS 1 below, sets out the Institute's response to the strategy terms and definitions. Table 1 sets out suggestions, including a brief explanation of our reasons. Where possible, the Institute has tried to remove any reference to a company (on order to keep it wide), and to remove any duplication that might be confusing or is not necessary. This means we have made some assumptions about the actual content and what the resulting climate statements will look like. The Institute suggests that it would be timely to include practical examples when preparing the standard/s for consultation.

Table 1: Proposed taxonomy for the Strategy section of NZ CS 1

Note: Blue background means it is in addition to the table of proposed terms from XRB. Red strikethrough is intentional and means it should be replaced.

Table 1: Strategy terms	XRB proposed definitions	McGuinness Institute comments
Actual	~~The use of the term actual in this context refers to either impacts or financial impacts that have already occurred.~~	Suggest clearer to state: **Actual:** Refers to either environmental impacts or financial impacts that have occurred in the past.
Adaptation plan	~~An aspect of an entity's overall strategy that lays out how an entity aims to minimise risks and capture opportunities associated with physical climate changes.~~	Partially agree. The Institute believes that this definition should also cover transitional risks and opportunities (e.g. social, political, legal, technological and market changes) and is a plan (and not a strategy). **Adaptation plan:** Explains in detail how an entity will manage risks and maximise opportunities. See risk definition below.
Business model	~~An entity's system of transforming inputs through its business activities (including operations) into outputs and outcomes that aims to fulfil the entity's strategic purposes and create value over the short, medium, and long term.~~	Agree, but could be clearer: **Business model:** Explains how an entity will create value during its normal day to day operations.
~~Cash flows~~	~~An entity's actual cash flows as reflected in its statement of cash flows or potential cash flows under different climate-related scenarios.~~	We suggest to be careful here as it could create unnecessary confusion. We suggest you delete.
Climate-related scenario	~~A plausible, challenging description of how the future may develop based on a coherent and internally consistent set of assumptions about key driving forces and relationships covering both physical and transition risks in an integrated manner. Note that climate-related scenarios are not intended to be probabilistic or predictive, or to identify the 'most likely' outcome(s) of climate change.~~	Disagree. Suggest XRB just used the term scenario (see below). Otherwise the debate is what is or is not a climate-related scenario. **Climate-related scenarios** refer to scenarios required to be used by preparers when assessing risks and opportunities under the standard/s. The key climate-related scenarios include: • The latest Aotearoa New Zealand reference climate scenario (mandatory) • The latest IPCC global warming scenario/s (ideally 2°C) (mandatory), and • One or more scenario/s of a preparers choice. (voluntary). Note: This could be a national, local or industry scenario/s. The only prerequisite is that an overview of the scenario/s is included in the climate statement, outlining when it was prepared, by whom and a brief summary of its findings (a link to the scenario document is voluntary).

Table 1: Strategy terms	XRB proposed definitions	McGuinness Institute comments
Financial impacts	~~The translation of impacts into actual or potential impacts on financial position and/or financial performance and cash flows.~~	Not sure why this is needed and may create further confusion for preparers.
Financial performance	~~An entity's actual income and expenses as reflected in its statement of financial performance or potential income and expenses under different climate-related scenarios.~~	Not sure why this is needed and may create further confusion for preparers.
Financial planning	~~An entity's consideration of how it will achieve and fund its objectives and strategic goals. The process of financial planning allows entities to assess future financial positions and determine how resources can be utilised in pursuit of short- and long-term objectives. As part of financial planning, entities often create "financial plans" that outline the specific actions, assets, and resources (including capital) necessary to achieve these objectives over a 1-to-5-year period. However, financial planning is broader than the development of a financial plan as it includes long-term capital deployment and other considerations that may extend beyond the typical 3-to-5- year financial plan (e.g., investment, research and development, manufacturing, and markets).~~	Not sure why this is needed and may create further confusion for preparers.
Financial position	~~An entity's actual assets, liabilities, and equity as reflected in its statement of financial position or potential assets, liabilities, and equity under different climate-related scenarios.~~	Not sure why this is needed and may create further confusion for preparers.
Impacts	~~The effects of climate-related risks and opportunities materialising on the entity, which will in turn depend on the impacts of climate change on the broader socioeconomic and ecological systems the entity operates within. These impacts are driven by the specific climate-related risks and opportunities to which the entity is exposed, and its strategic and risk management decisions on seizing those opportunities and managing those risks.~~	Not sure why this is needed and may create further confusion for preparers.
Potential	The use of the term potential in this context refers to impacts or financial impacts that may plausibly occur in the future.	Not sure why this is needed and may create further confusion for preparers.
~~Resilience (in the context of an entity's strategy)~~	~~The characteristic of an entity's strategy that allows it to adapt to climate-related changes materially affecting it, while maintaining operations and profitability and safeguarding people, assets, and overall reputation. Strategy resilience has two main pillars: vulnerability and preparedness. Vulnerability~~	Not sure why this is needed and may create further confusion for preparers.

Table 1: Strategy terms	XRB proposed definitions	McGuinness Institute comments
	~~incorporates the elements of exposure, sensitivity, and adaptive capacity. Preparedness incorporates the elements of strategic planning and adaptive capacity. Strategic planning is primarily a forward-looking exercise. Assessment of adaptive capacity involves both present and forward-looking aspects.~~	
~~Scenario analysis~~	~~A process for systematically exploring the effects of a range of plausible future events under conditions of uncertainty. In the case of climate change, climate-related scenarios allow an entity to explore and develop an understanding of how physical and transition risks and opportunities may impact its business model and strategy over time.~~	Not sure why analysis is needed and may create further confusion for preparers. See suggestion for definition of scenario below.
Strategy Domestic target-aligned strategy	~~An entity's desired future state. An entity's strategy establishes a foundation against which it can monitor and measure its progress in reaching that desired state. Strategy formulation generally involves establishing the purpose and scope of the entity's activities and the nature of its businesses, taking into account the risks and opportunities it faces and the environment in which it operates.~~	Figure 5 illustrates how strategy and purpose have a cause and effect relationship. **Strategy:** Explains the choice a country or organisation plans to make in order to achieve a specified purpose; purpose and strategy have a cause and effect relationship. See also domestic target-aligned strategy below.
Stranded assets		This term may be needed in terms if climate-related financial disclosures regarding changes in operational strategy. In the case study, NZKS wrote down it's assets (impairment) due to climate change, because the Pelorus farms no longer had a 12-month production cycle (but only 9 months) due to climate change impacting water temperatures. **Stranded assets: Refers to** assets exposed to devaluation or conversion to 'liabilities' because of unanticipated changes in their initially expected revenues.[33]
Transition plan	~~An aspect of an entity's overall strategy that lays out a set of targets and actions supporting its transition toward a low-emissions economy, including actions such as reducing its GHG emissions.~~	Partially agree, though we believe that (in the same manner as adaptation plan) the definition should be wider in scope. **Transition plan**: Explains in detail how an entity will move from its current business model to a low-emissions business model. See climate risk definition below.
Suggested additions		

Table 1: Strategy terms	XRB proposed definitions	McGuinness Institute comments
Climate opportunities Climate risks Physical climate risks Transition climate risks Climate litigation risks Material climate omission Material climate risk Material financial climate risks	~~Material: Information is material if omitting, misstating, or obscuring it could reasonably be expected to influence decisions that primary users make on the basis of their assessments of an entity's enterprise value across all time horizons, including the long term).~~	In order to make the standard specific and useful to preparers and users, we propose the following additional terms are necessary. **Climate opportunities:** Refers to a favourable or advantageous circumstance or combination of circumstances that exist as a result of climate change, and can come about through economic, social, environmental, political, legal and technological changes. **Climate risks:** Refers to an unfavourable or disadvantageous circumstance or combination of circumstances that exist as a result of climate change, and can come about through economic, social, environmental, political, legal and technological changes. **Physical climate risks:** Includes direct impacts (such as air turbulence, rogue waves, floods, storms, rising temperatures, stranded assets, transport disruptions, mortalities, erosion and costs of energy), and indirect impacts (such as biodiversity loss, human migration and climate change refugees). **Transition climate risks**: Refer to impacts that arise from changes in policy and new technologies, such as the growth of renewable energy, financing and supply change risks. **Litigation climate risks:** Refers to types of governance failures that may exist as a result of climate change. For example, disclosure failure, such as a complete failure to disclose; a disclosure of untrue or misleading information; a disclosure with a **material climate omission**; and/or a delayed disclosure.[34] **Material climate omission:** Refers to climate-related information that should have been included in a climate statement but was not (such as metrics or the probability and magnitude of certain events), but that the board and/or management had (i) access to and (ii) could reasonably have expected shareholders to want to know in order to assess the merits of how the entity was considering **material climate risks**. **Material climate risk:** A climate risk is material if **omitting**, misstating, or obscuring it could reasonably be expected to prevent a stakeholder from being

Table 1: Strategy terms	XRB proposed definitions	McGuinness Institute comments
		able to assess the merits of how an entity was considering climate-related risks and opportunities. (see also material targets and metrics, in Table 2) **Material financial climate risks:** Refers to risks that must be reported in the financial statements of an entity. Note: The last two proposed definitions use wording from s 19B of the Financial Reporting Act 2013 (see wording in Box 5).
Climate scenario IPCC global warming scenario Aotearoa New Zealand climate reference scenario Local scenario National scenario Industry scenario		We prefer NIWA's definition, but would change plausible to probable, possible and preferred. In reality all the of IPCC are preferred descriptions, as without any change in behaviour, the impact is disastrous. 'Plausible 'Probable, possible and preferred and often simplified descriptions of how the future may develop based on a coherent and internally consistent set of assumptions about driving forces and key relationships. Scenarios may be derived from projections but are often based on additional information from other sources and sometimes combined with a narrative storyline.'[35] **Climate scenario:** Refers to probable, possible and preferred descriptions of how the future climate may develop based on a coherent and internally consistent set of assumptions about driving forces and key relationships.[36] **IPCC global warming scenario:** A scenario prepared by the Intergovernmental Panel on Climate Change (IPCC), the United Nations body for assessing the science related to climate change. Our preference is that this is defined as 2°C. However, as an alternative the XRB could require an entity to select and list the actual IPCC scenario they selected to stress test their strategy. **Aotearoa New Zealand reference climate scenario:** Refers to the latest scenario designed specifically with New Zealand in mind and published by NIWA (see Figure 7). The reference scenario is one of two scenarios that must be used by preparers of Climate Statements. **National climate scenario:** Refers to a scenario created on the climate in New Zealand and is relevant to all of New Zealand. The Aotearoa New

Table 1: Strategy terms	XRB proposed definitions	McGuinness Institute comments
		Zealand reference climate scenario is a national scenario that is signed off by government as the reference climate scenario for the country. (See, for example, the 183 national scenarios found in *Working Paper: 2021/10: Analysis of Existing Scenarios in Aotearoa New Zealand* (58 of which explicitly mention climate change, see Figure 21 in Appendix 7).[37] **Local climate scenario:** Refers to a scenario created in New Zealand but is relevant to a small part of a region New Zealand (e.g. local government). **Industry climate scenario:** Refers to a scenario that only relates to a specific industry (usually developed by the industry). It can be a national scenario (e.g. energy scenarios that cover all of New Zealand) or a local scenario (e.g. dairying in the South Island).
Transition		**Transition:** Refers to the process of changing from one state or condition to another in a given period of time. Transition can refer to a transition by individuals, firms, cities, regions and nations, and can be based on incremental or transformative change.
Purpose		**Purpose:** The reason the strategy exists. See Figure 5.
Domestic-aligned 2050 emissions target		Note: This is similar to the concept of a Paris-aligned strategy. Note: Also included in Table 2. **Domestic-aligned 2050 target:** Refers to an entity stress testing their business strategy against the government target set out in the Climate Change Response Act 2002.

Question 6: The XRB has identified adoption provisions for some of the specific disclosures in NZ CS1.

a) Do you agree with the proposed first-time adoption provisions? Why or why not?

Disagree. In December 2020, New Zealand has declared a climate emergency, committing to urgent action on reducing emissions. There is no time to be provide a soft entry for first-time adopters, entities cannot and should not use a lack of skills or capabilities as a reason not to comply. This is not to their benefit, nor to society as a whole. Furthermore, delays in data being obtained relating to financial impacts, transition and adaptation plans could result in broader risks to the financial system as well as Aotearoa New Zealand's response to emission reduction plans/targets.

b) In your view, is first-time adoption relief needed for any of the other disclosure requirements? Please specify the disclosure and provide a reason.

No, just good guidance and a help line.

c) If you are requesting further first-time adoption relief, what information would you be able to provide in the interim?

Not applicable given our answer to (a) and (b) above.

PART TWO: METRICS AND TARGETS

Question 7: Do you think the proposed Metrics and Targets section of NZ CS 1 meets primary user needs?

a) Do you think that the information in this section of the standard will provide information that is useful to *primary users* for decision making? If not, please explain why not and identify any alternative proposals. [italics added]

As noted, we strongly disagree with the term 'primary user'. See discussion in Section 2.1 in particular the difference between preparers and users' needs (see Figure 3: Preparers' and users' views on elements of EER disclosure [metrics]).

b) Do you consider that this section of the standard is clear and unambiguous in terms of the information to be disclosed? If not, how could clarity be improved?

Please see suggestions Table 2. The illustrations in Figures 10–12 are provided to show how the XRB might be able to illustrate the concepts in Table 2.

As per our answer to Question 3, the standard's proposed guidance (found in section 7.5 of the consultation document) should include a list of acceptable emission accounting standards to ensure legitimacy and comparability. Relying on metric standards outlined in the consultation document (ISO, GHG Protocol, PCAF and TCFD) would give CREs some rigour but also allow some flexibility.

You may also be interested in recent work being undertaken by MBIE. The Institute recently submitted on *Te Ara Paerangi – Future Pathways Green Paper.*[38] This consultation provided an opportunity to reshape the development and provision of research to better align with the Research, Science and Innovation (RSI) system and across all users of data, information and knowledge. The Institute was pleased to learn that as part of the ERP, the research, science and innovation system will be 'reshaped to align with mission-led Climate Innovation Platforms that aim to drive transformative change.'[39] This is an encouraging step toward a coordinated whole-of-systems approach that will improve the quality and quantity of metrics available.

c) Do you consider that this section of the standard is adequately comprehensive and achieves the right balance between *prescriptiveness* and principles-based disclosures? If not, what should be removed or added to achieve a better balance? [italics added]

Users must have complete confidence in the information that is being disclosed, especially when that information takes the form of a critical metric that may inform the economics of a business model or the ability to achieve a target. The NZKS case study shows what happens when a standard measure is not uniformly reported, or if reported, is reported in such a way that it's meaning is unclear. In this NZKS case, the temperature that salmon become stressed was unclear (somewhere between 17°C and 18°C) and the sea surface temperature (SST) was also unclear (e.g. did it represent the true surface, a metre below, or many metres below). If we are to manage and make decisions about climate change, standard measures must be used and regulated, to prevent flawed data from negatively impacting decision-making, such as consumer decisions, supplier decisions, banking decisions etc).

Working Paper 2021/14 – The Role of Ocean Water Temperature in Climate Change Policy – A New Zealand King Salmon Case Study[40] provides an example of how inconsistently defined metrics results in inaccurate measurements and ultimately distrust. The paper illustrates how sea surface temperature have been discussed by experts and policy makers since 2012 (when climate change was not seen as significant), to today (when it is now a key determinant impacting financial viability). The Institute observed that there exists a range of different temperatures quoted, but that the standard measure (the formula) was often not provided. This created doubt over the quality of sea temperature data, which in turn, prevented a useful discourse with NZKS management and the community in which it operates (its social licence), amplifying mistrust over resource management decisions and other public policy decisions.

This example illustrates that, as more entities begin to experience climate-related impacts and embark on their climate reporting journeys, metrics, and in particular how they are measured, will become critically important. Therefore, the XRBs approach to metrics must be rigorous.

To this end, the Institute makes the following suggestions for the XRB to consider:

- Request MfE to create 'an environmental measurement taxonomy'. This should include exact scientific formulas in order that consistent measures could be measured and reported across public policy over time. Such measures could be used by councils, by the environment court, and most importantly applied by preparers and assurers of climate statements. This could be recommended as best practice in the guide to the XRB climate standards. Examples of definitions include sea level rise, air turbulence, wild fire descriptions, SST, land surface temperature, mortality tonnes etc), and

- Where standard measurement is not included in the proposed 'environmental measurement taxonomy' or is not agreed, require preparers to be transparent and provide the source (e.g. NIWA), the full citation of the report (and ideally a link), the authors name and the date of publication. If the company has developed its own formula or calculation, it should ensure the formula/calculation is provided in the climate statement. Further, in cases where a change in formula is proposed, the reason for the change to a new formula must be explained (i.e. the reason for changing from the old formula to the new formula).

Climate-related information must be able to flow smoothly between preparers, users and assurers. In practice, the standard should be comprehensive and specific enough to ensure that information is accurate, meaningful, reliable, and useful. The standard, then, must prioritise aligning the needs and demands of both preparers and users.

The Institute is concerned that the use of the word 'prescriptiveness' adds unnecessary tension as it is rooted in regulation. Instead, the Institute believes that 'specificity' is clearer and should be used instead.

The Institute believes that the standards should be sufficiently specific for preparers, users and assurers. This means: (i) specific in order for preparers to gather, collate and report against, (ii) specific in order for users to read, understand and make decisions and (iii) specific in order for assurers to verify and users to trust.

The XRB needs to work hard to prevent climate washing of financial statements; preparers should not be able to hide poor business management by hiding behind climate change.

Lastly, it is critically important to make sure that the standard enables the same starting points for CREs to ensure that early stage comparability is possible. This means that the standard should establish and use consistent terminology. See, for example, our proposed definitions in Table 2.

Question 8: We have not specified industry-specific metrics. The guidance will direct preparers where to look for industry-specific metrics. Do you believe this is reasonable or do you believe we should include a list of required metrics by industry? If so, do you believe we should use the TCFD recommendations or follow the Technical Readiness Working Group (TRWG) prototype?

As discussed in the previous question, metrics are only useful if they are comparable; such as comparing the same entity's metric over time, comparing one entity's metric with those in the same industry or comparing one industry's metric with another. This means a formula or calculation must be able to be recalculated accurately by an independent party.

The Institute therefore makes the following suggestions:

1. **MfE publishes an environmental measurement taxonomy (with formulas)**.
   Providing a tool not just for preparers of climate statements, but for across public policy and the courts.

2. **MBIE publishes a guide for preparers of useful metrics for each Business Industry Classification Code (rather than use the TCFD industry specific metrics is in Annex 1).**
   It is important that XRB does not try to do everything and there will be expertise and win-wins for MBIE if they undertake this work and prepare specific metrics for New Zealand industries. They have expertise and knowledge about these industries and will know the types of metrics that will be relevant and useful. They will also benefit by obtaining quality and timely information from entities climate statements to help manage resources and support sustainable business models. In other words, MBIE wins (they gain information they really need and want), business wins (they are not wasting time trying to produce information not relevant to New Zealand) and the XRB wins (they can focus on other aspects of the climate-disclosures framework), and

3. **NIWA, MfE, MBIE and XRB explore better ways to illustrate their frameworks (and thinking).**
   We thought the thinking contained in a recent Cawthron Institute, Report no. 3530: *Environmental Limits – A proposed framework for Aotearoa New Zealand* (2020) illustrates the relationship and decision making process between environmental limits and target setting (p. 137). See Figures 10 and 11 for examples how these concepts could be illustrated in the standards or the guidance supporting the standards.

Question 9: We will require disclosure of scope 3 value chain emissions as part of this standard. Are there areas (particularly in your scope 3 value chain) where there are impediments to measuring at present? If so, what are these areas and when do you think it might be possible to measure these areas?

The Institute supports the decision to require the disclosure of scope 3 value chain emissions as part of the standard. For entities that produce scope 3 emissions, they often are responsible for the largest proportion of their emissions. As seen in this example regarding NZKS (Figure 12 below), scope 3 emissions occur in both the upstream and downstream activities of NZKS's value chain.

When it comes to measuring scope 3 emissions, the Institute is aware of difficulties relating to expertise, tools, and internal capacity when trying to measure scope 3 emissions, but we believe given the emergency, the benefits will exceed the costs.

Question 10: Paragraphs 8, 9 and 10 contain specific requirements relating to the disclosure of GHG emissions to facilitate the conduct of assurance engagements in line with the requirement of section 461ZH of the Financial Markets Conduct Act. Do you have any observations or concerns about these proposed requirements?

The Institute supports this and believes assurance is going to be very important.

Question 11: Do you have any views on the defined terms as they are currently proposed?

Table 2: Proposed taxonomy for the Metrics and Targets section of NZ CS 1 below, sets out the Institute's response to the metrics and targets terms and definitions.

Question 12: The XRB has proposed not providing first-time adoption provisions for the Metrics and Targets section of NZ CS 1. Do you agree? Why or why not?

The Institute agrees. Disclosures on metrics and targets are needed as soon as possible in order to gather new data, build upon existing data and create a more informed society.

Table 2: Proposed taxonomy for the Metrics and Targets section of NZ CS 1

Note: Blue background means it is in addition to the table of proposed terms from XRB. Red strikethrough is intentional and means it should be replaced.

Table 2: Metrics and Targets terms	XRB proposed definitions	McGuinness Institute comments
Base year	~~An historic datum (a specific year or an average over multiple years) against which an entity's emissions are tracked over time.~~	Agree, but keep it simple. **Base year [for calculating emissions]:** Refers to a year in the past that an entity can legitimately use to record and compare changes in emissions over time.
CO2e	Carbon dioxide equivalent~~. The universal unit of measurement to indicate the global warming potential of each of the seven greenhouse gases, expressed in terms of the global warming potential of one unit of carbon dioxide for 100 years. It is used to evaluate releasing (or avoiding releasing) any greenhouse gas against a common basis.~~	Agree, but we suggest making this an abbreviation.
Consolidation [of GHG emissions]	~~Combination of GHG emissions data from separate operations that form part of one company or group of companies.~~	Agree, but make the term clearer (see square brackets) and use entities not companies. **Consolidation [of GHG emissions]:** Refers to a note in the climate statement that combines GHG emissions data from separate parts of entity or group of entities.
Emissions	~~The release of greenhouse gases into the atmosphere.~~	Agree, but not needed.
Emission factor	A factor allowing GHG emissions to be estimated from a unit of available activity data (for example, tonnes of fuel consumed, tonnes of product produced) and absolute GHG emissions.	Agree, but not sure where you are wanting this to be disclosed. Perhaps it would be good for XRB to produce some test climate statements.

Table 2: Metrics and Targets terms	XRB proposed definitions	McGuinness Institute comments
Emissions intensity [formula]	Intensity ~~ratios~~ *formulas* express GHG impact per unit of physical activity or unit of economic output. A physical intensity ~~ratio~~ *formula* is suitable when aggregating or comparing across businesses that have similar products. An economic intensity ~~ratio~~ *formula* is suitable when aggregating or comparing across businesses that produce different products. A declining intensity ~~ratio~~ *formula* reflects a positive performance improvement. Many ~~companies~~ historically tracked environmental performance with intensity ~~ratio~~ formulas. Intensity ~~ratios~~ formulas are often called 'normalised' environmental impact data. Examples of intensity ratios include product emission intensity (for example, tonnes of CO2 emissions per electricity generated); service intensity (for example, GHG emissions per function or per service); and sales intensity (for example, emissions per sales).	Agree, but suggest XRB uses emissions formula instead of ratio, given EIR means energy intensity ratio. Also not sure where you are wanting this to be disclosed. Perhaps it would be good for XRB to produce some test climate statements.
GHG emissions report	~~The report from which GHG disclosure data is extracted for the climate statement. This contains all the details required by the recognised standards or methodologies (basis of preparation) used to calculate emissions.~~	Our preferred definition; we are assuming this will include a list of different gasses – correct? **GHG emissions report**: Contains a detailed list of all the entities actual GHG (by gas) and by scope, including an explanation on how the gases were measured. A summary of the report will be included in the entity's climate statement.
Global warming potential (GWP)	A factor describing the radiative forcing impact (degree of harm to the atmosphere) of one unit of a given GHG relative to one unit of carbon dioxide (CO2).	Agree, but not sure where you are wanting this to be disclosed. Perhaps it would be good for XRB to produce some test climate statements.
Greenhouse gases (GHG)	The seven greenhouse gases listed in the Kyoto Protocol: carbon dioxide (CO2); methane (CH4); nitrous oxide (N2O); hydrofluorocarbons (HFCs); nitrogen trifluoride (NF3); perfluorocarbons (PFCs); and sulphur hexafluoride (SF6).	Agree, assuming this needs to be included for the GHG emissions report (see definition above).
Gross emissions	The total of emissions excluding any purchase, sale or transfer of GHG emission offsets or allowances. Gross scope 2 emissions must be calculated using the location-based methodology. Removals should be reported separately.	Agree, but perhaps this should be included in the GHG emissions report definition.
Interim target	~~Refers to a short-term milestone between the organization's medium- or long-term target and current period.~~	Agree, but not sure why it is needed. Might be safer to exclude and just require targets to include timeframes.

Table 2: Metrics and Targets terms	XRB proposed definitions	McGuinness Institute comments
~~Internal emissions price~~	~~A monetary value on GHG emissions an entity uses internally to guide its decision-making process in relation to climate change impacts, risks and opportunities.~~	Agree, but assume this is voluntary? **Internal emissions price:** Refers to a monetary GHG emissions value that an entity may decide to set and apply when considering strategic or operational options. The aim is to help the entity understand the implications of its decision-making on its emission footprint.
Climate metric	~~A metric is a quantity indicative of the level of historical, current, and forward-looking climate related risks and opportunities for a given entity. These indicators are used to track climate-related risks and opportunities and can also be used to measure progress against climate-related targets over the duration of the period for which a target is set.~~	Disagree. See proposed definition below. **Climate metric:** Refers to a standard of measurement related to climate change. Metrics are used to track climate-related risks and opportunities and measure progress against targets.
Scope 1	~~All direct GHG emissions.~~	We prefer the definition of scopes 1-3 from the Financial Times Climate Change A-Z glossary.[41] **Scope 1** covers direct emissions from owned or controlled sources.
Scope 2	~~Indirect GHG emissions from consumption of purchased electricity, heat, or steam.~~	**Scope 2** covers indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company.
Scope 3	~~Other indirect emissions not covered in scope 2 that occur in the value chain of the reporting entity, including both upstream and downstream emissions. Scope 3 categories are: purchased goods and services; capital goods; fuel- and energy-related activities; upstream transportation and distribution; waste generated in operations; business travel; employee commuting; upstream leased assets; downstream transportation and distribution; processing of sold products; end-of-life treatment of sold products; downstream leased assets; franchises; and investments.~~	**Scope 3** (also called value chain emissions). It includes all other indirect emissions that occur in a company's value chain. There are two types: **Scope 3 Upstream activities [of a product or service]:** Includes operations that relate to the initial stages of producing a good or service (e.g. sourcing, processing, supplier activities). See upstream activities. **Scope 3 Downstream activities [of a product or service]:** Includes operations that relate to processing and delivering a finished product to the end user (e.g. transportation, distribution, and consumption). See downstream activities. Note, we have removed 'material' so as not to cause unnecessary confusion.
Climate target	~~A target is a specific level, threshold, or quantity of a metric that the entity wishes to meet over a defined time horizon in order to achieve the entity's overall climate-related ambition and strategy.~~	This can be quite confusing in the literature and needs XRB to provide a very precise definition. A recent Cawthron Institute, Report no. 3530: *Environmental Limits – A proposed framework for Aotearoa New Zealand* (2020) supports the following definition of environmental targets (p. 12) notes:

Table 2: Metrics and Targets terms	XRB proposed definitions	McGuinness Institute comments
		'In contrast to environmental limits, environmental targets are aspirational statements about the desired state of an environmental system and its outcomes for people (Dao et al. 2018). … Targets may be attached to particular indicators or ecosystem components, or may be framed as broad over-arching objectives (Defra 2007) and be applied to pressures (e.g. pollutant emissions, resource consumption, waste production, etc.), to elements of quality or state of the environment (e.g. biological quality of water) or to specific impacts (e.g. human health, ecosystem health). According to Bourne and Fenn (2011), environmental targets should be relevant, achievable, effective, socially acceptable, and specific.' However we do wonder if the entity may wish to discuss other targets that are not environmental and wonder if two definitions are necessary (one for targets and another for environmental targets. **Climate target:** Refers to a specific goal the entity aims to achieve in relation to climate change. **Environmental target:** Refers to an aspirational statement that uses relevant, achievable and specific data to describe the desired state of an environmental system. **Domestic-aligned 2050 emissions target:** Refers to an entity stress testing their business strategy against the government target set out in the Climate Change Response Act 2002.
Value chain	The upstream and downstream life cycle of a product, process, or service, including material sourcing, production, consumption, and disposal/recycling. Upstream activities include operations that relate to the initial stages of producing a good or service (e.g., material sourcing, material processing, supplier activities). Downstream activities include operations that relate to processing the materials into a finished product and delivering	Agree but think it should be two definitions as clearer. See scopes definitions above.

Table 2: Metrics and Targets terms	XRB proposed definitions	McGuinness Institute comments
	it to the end user (e.g., transportation, distribution, and consumption).	
Suggested additions		
Domestic-aligned 2050 emissions target		See proposed definition in target above.
Environmental limit		A recent Cawthron Institute, Report no. 3530: *Environmental Limits – A proposed framework for Aotearoa New Zealand* (2020) prefers the definition (p. 11) by Haines-Young et al. (2006; p. 8). They go on to state: 'Environmental limits may thus refer to an environmental state (e.g. average air temperature), pressure (e.g. atmospheric CO2 concentration), or driver of change (e.g. anthropogenic CO2 emissions), depending on the system or issue of concern and information available.' We agree with the Cawthron Institute paper and recommend the term to be defined as follows: **Environmental limit:** Refer[s] to the level of some environmental pressure, indicator of environmental state or benefit derived from the natural resource system, beyond which conditions which are deemed to be unacceptable in some way, either because the system is judged to be damaged or because its integrity is at risk. [We suggest adding] It includes both physical and bio-physical limits]. For example, the IPCC talks about 'limit the temperature increase to 1.5°C above pre-industrial levels').[42] See also salmon example below in *environmental threshold*.

Table 2: Metrics and Targets terms	XRB proposed definitions	McGuinness Institute comments
Environmental threshold		Note: threshold is often discussed in terms of tipping points: The IPCC defines tipping points as: 'A level of change in system properties beyond which a system reorganizes, often abruptly, and does not return to the initial state even if the drivers of the change are abated. For the climate system, it refers to a critical *threshold* when global or regional climate changes from one stable state to another stable state.'[43] NIWA defines threshold as: 'Thresholds help establish the acceptability of the risk posed to an exposure unit by future circumstances and decisions. Thresholds are determined by past records or experience of previous events that defined the edge of the coping range and the limit of a tolerable climate. Thresholds, or assessment endpoints, may be a fundamental property of a system (i.e. the water level at which a river bursts its banks, or the wind speed that leads to the felling of large areas of forest), or behavioural (i.e. a point at which individuals, or society at large, responds to an issue by a change in behaviour that has an economic or social outcome).'[44] **Environmental threshold:** Refers to a tipping point, usually set by science or scientists, that if exceeded in the environment, will have a significant outcome on the country, the ecosystem or the entity. It includes both physical and bio-physical thresholds. **Practical example: Illustrating the difference between a target, a limit and a threshold:** The water temperature for salmon swimming in the sea in the sounds may have a scientific *threshold* of 18^{o}c SST before the fish become stressed and die. However a entity may want start upwelling to cool the water once the reaches a *level* of 17^{o}C and move the salmon to cooler water if a *level* of 17.5^{o}C is reached. In contrast, the *target* for the entity may be for salmon to swim in water between 16^{o}C and 17^{0}C for 95% of the salmons life.
Magnitude		**Magnitude:** Refers to the level of impact if it were to happen (e.g. if the event was to occur, the magnitude would be minimal).

Table 2: Metrics and Targets terms	XRB proposed definitions	McGuinness Institute comments
Material targets Material metrics Material omission		**Material targets:** Refers to a target that is material if omitting, misstating, or obscuring it could reasonably be expected to prevent a stakeholder from being able to assess the merits of how an entity was considering climate-related risks and opportunities. **Material metrics:** Refers to a metric that is material if omitting, misstating, or obscuring it could reasonably be expected to prevent a stakeholder from being able to assess the merits of how an entity was considering climate-related risks and opportunities. See also material risks, in Table 1. **Material omission:** Refers to information that was not included in a climate statement (such as metrics or the probability and magnitude of certain events), but that the board and/or management had (i) access to and (ii) could reasonably have expected shareholders to want to know in order to assess the merits of how the entity was considering material risks.
Probability		**Probability:** Refers to how likely something is to happen (e.g. there is a low probability of an event happening or a target being achieved).
Sea Surface Temperature		We suggest you ask NIWA to provide their definition. You could also include Land Surface Temperature, as we think that will become a key standard of measurement. NIWA may have additional suggestions.
Uncertainty		We prefer the IPCC definition: **Uncertainty:** Refers to 'a state of incomplete knowledge that can result from a lack of information or from disagreement about what is known or even knowable. It may have many types of sources, from imprecision in the data to ambiguously defined concepts or terminology, incomplete understanding of critical processes, or uncertain projections of human behaviour.'[45]

Figure 10: Decision tool for prioritising topics for environmental limit and target setting[46]

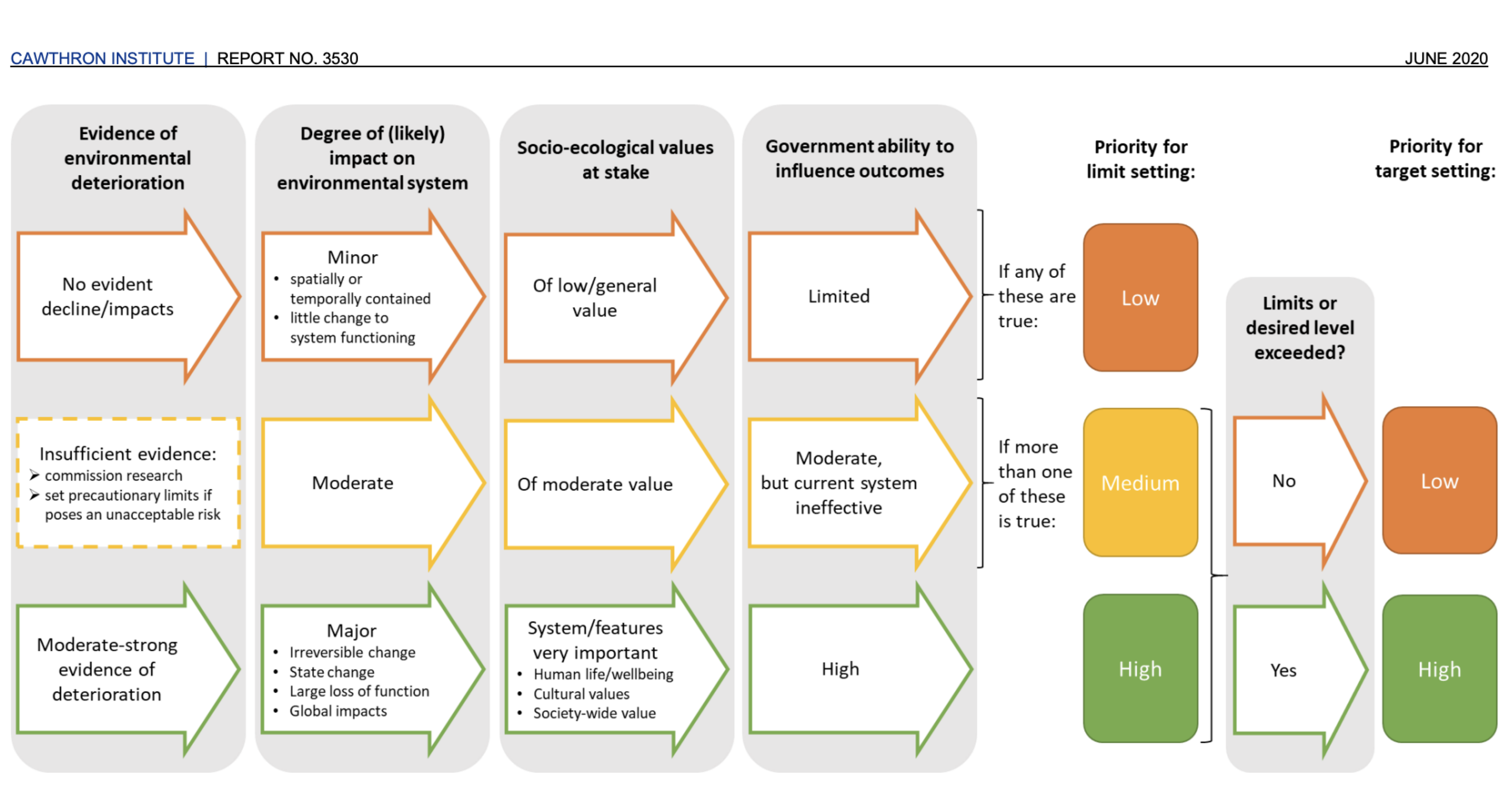


Figure 11: The conceptual relationship between outcomes, targets, limits and bottom lines[47]

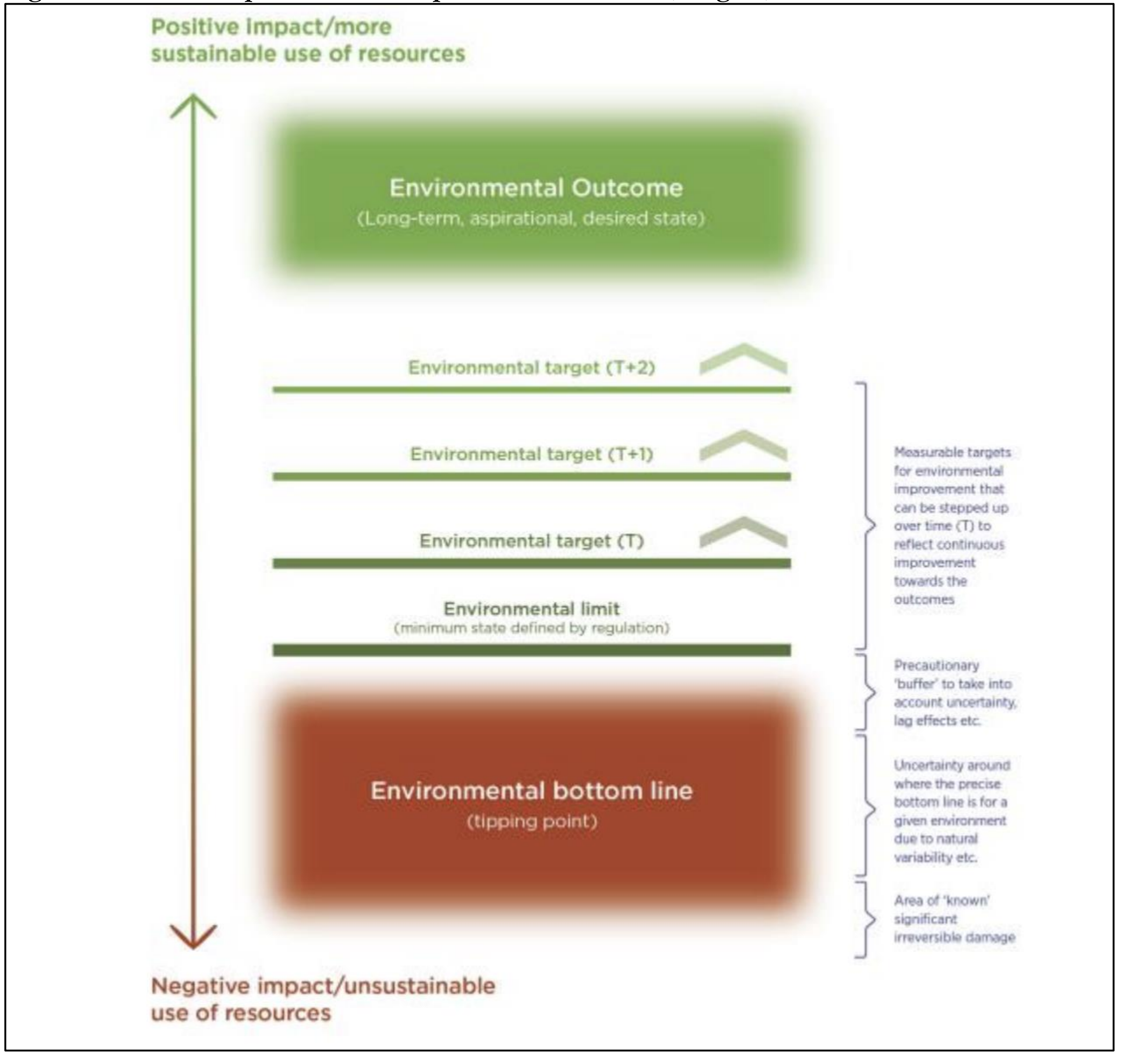
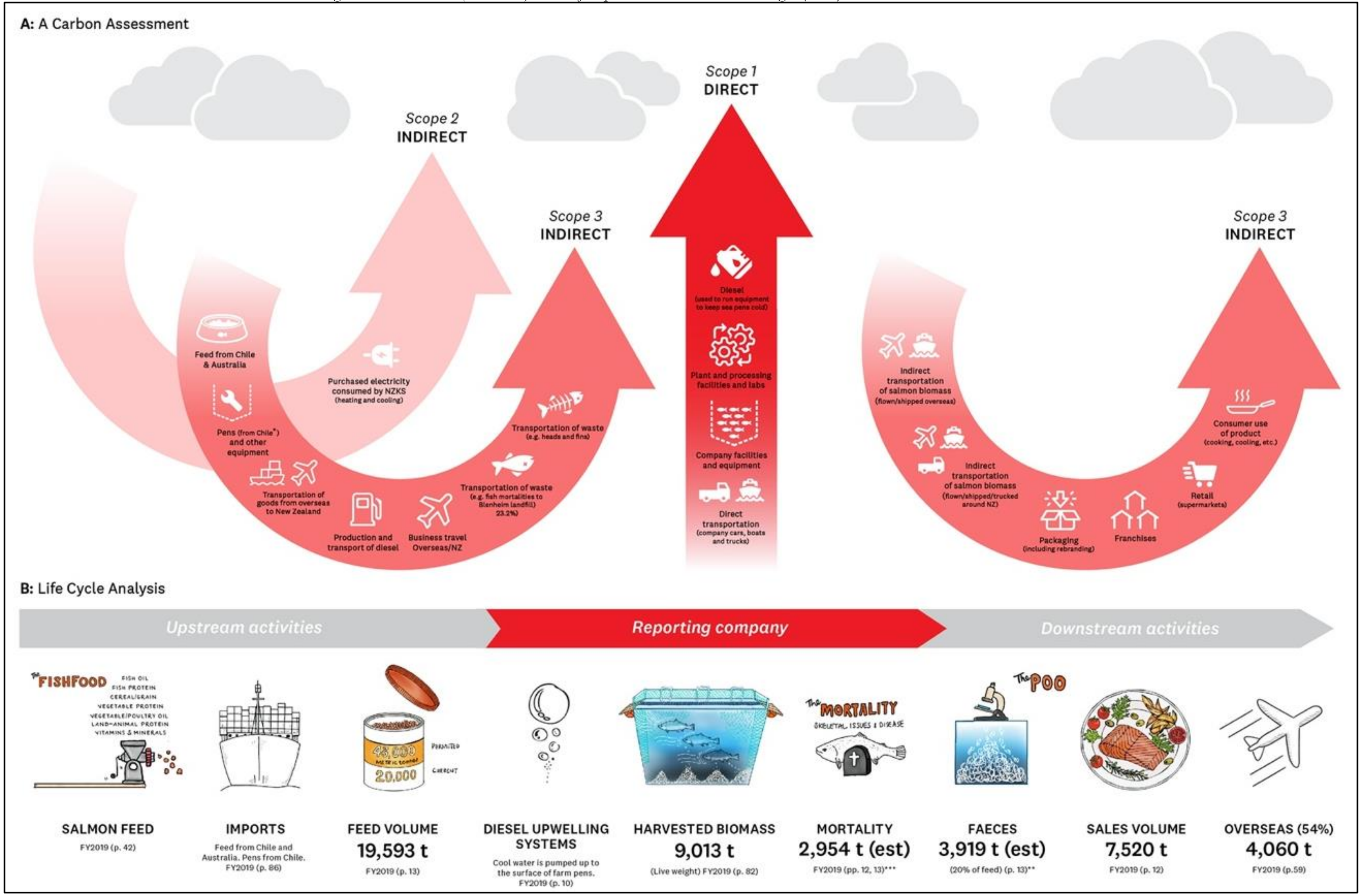


Figure 12: Exploring Scope 1, 2 and 3 for New Zealand King Salmon – An external perspective

Source: McGuinness Institute. *The New Zealand King Salmon Co Limited (U190438) North of Cape Lambert, North Marlborough,* (2019).[48]



PART THREE: ASSURANCE

Question 13: The XRB proposes that the minimum level of assurance for GHG emissions be set at limited assurance. Do you agree?

With respect to the reasons outlined in the consultation document, the Institute suggests that the minimum level of assurance should initially be set at 'limited' for scope 3 emissions only, leaving scope 1 and 2 emissions to be assured at a 'reasonable' level. The Institute believes that the majority of emission estimates that are 'subject to high estimation uncertainty' are scope 3 (indirect) emissions, rather than scope 1 and 2 (direct) emissions. For this reason, the Institute believes that entities and assurance practitioners can obtain additional evidence to assure scope 1 and 2 emissions at a 'reasonable' level.

The Institute has made the following suggestions regarding definitions presented in Table 3 and 4 (overleaf).

Table 3: Intended scope of the assurance engagement and a short explanation of reasonable and limited assurance

Table 3: Intended scope of the assurance engagement	XRB proposed description	McGuinness Institute comments
Disclosure 4(a)	Scope 1, 2 and 3 GHG emissions	See Table 2 regarding scope definitions.
Disclosure 8	Additional requirements for the disclosure of GHG emissions under disclosure 4(a)	The Institute agrees.
Disclosure 9	The requirement to prepare a GHG emissions report and provide a link or cross reference (the GHG emissions report is an integral part of the disclosures and will be required to be publicly available)	The Institute agrees.
Disclosure 10	Confirmation that GHG disclosures have been drawn from the GHG emissions report	The Institute agrees.
Reasonable assurance	This is the highest level of assurance. The conclusion in a reasonable assurance engagement is framed in a positive sense, i.e.: "In our opinion, XYZ's GHG inventory for the year ended 31 December 2021 totalling XXt CO2e has been prepared and presented fairly, in all material respects, in accordance with the criteria defined below."	The Institute agrees.
Limited assurance	This is a lower level of assurance compared to reasonable. The conclusion in a limited assurance engagement is framed in a negative sense, i.e.: "Based on our limited assurance procedures, nothing came to our attention that caused us to believe that XYZ's GHG inventory for the year ended 31 December 2021 totalling XX tCO2e, has not been prepared and presented fairly, in all material respects, in accordance with the criteria defined below".	The Institute agrees.

PART FOUR: MATERIALITY

Question 14: The XRB has proposed a definition of material (Information is material if omitting, misstating, or obscuring it could reasonably be expected to influence decisions that primary users make on the basis of their assessments of an entity's enterprise value across all time horizons, including the long term). Do you agree with this definition? Why or why not?

This definition is related to issues stemming from the narrowly definition of 'primary users'. The proposed narrow definition is at odds with the breadth of risks and their impacts on the public (see, for example, NCCRA summary in Figure 1).

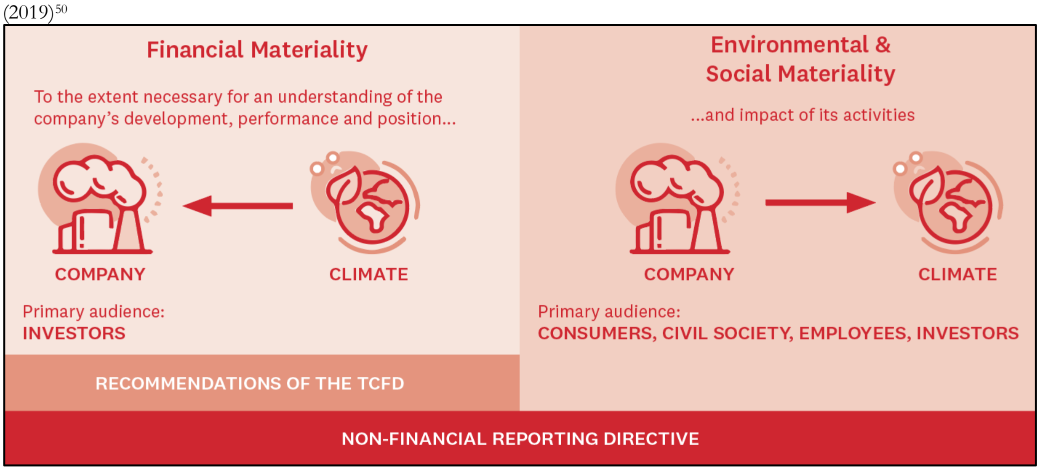
In 2014, the European Union developed a non-financial reporting directive: *Directive 2014/95/EU*. In 2019, *Directive 2014/95/EU* was reinforced with supplementary 'non-binding guidelines' on reporting climate-related information: *Guidelines on non-financial reporting: Supplement on reporting climate-related information* (the *Guidelines*). The diagram from the EU (Figure 13) illustrates a 'double materiality perspective': the distinction between the impacts of climate change on the company and the impacts of the company on the climate. The *Guidelines* also state that '[i]t is very important for stakeholders to understand the company's view of how climate change impacts its business model and strategy, and how its activities can affect the climate, over the short, medium, and long term'.[49]

The *Recommendations of the TCFD* focus on the first perspective (financial materiality), while the targets in the Climate Change Response (Zero Carbon) Act focuses on the second perspective (environmental and social materiality). In our view, the XRB's definition of materiality should cover both perspectives, as the purpose of the climate statements is to solve a problem that is much more important than capital markets, rather it is to protect the lives of current and future generations and protect the existing flora and fauna. In other words, a narrow definition of materiality, as proposed, does not align with the current legislative and policy framework in Aotearoa New Zealand or the climate emergency we are, and will experience.

Our accounting solution is not to define materiality, but to define 'climate risks', 'material climate risks' 'material climate targets', 'material climate metrics', 'financial climate risks', 'probability' and 'magnitude', see Table 1.

Figure 13: The double materiality perspective

Source: European Union (EU). *Communication from the Commission – Guidelines on non-financial reporting: Supplement on reporting climate-related information* (2019)[50]



Question 15: Do you have any other comments on the proposed materiality section?

See Section 2: General discussion and observations.

Table 4 sets out our observations, building on Tables 1-3. We suggest that where possible you add the term climate in front of terms to denote it relates to the climate-related disclosures framework. Importantly, we are not suggesting alignment in terms of similar terms used for the same thing (the goal is not to produce financial statements), but to produce a new type of statements that fills a significant gap in existing regular external reporting.

Although we can appreciate the flexibility the XRB is trying to create by producing a NZ CS 3, we wonder if the XRB could solve the problem by issuing an explanatory guide to NZ CS 1, until the issues become apparent. This could be along the lines of the *Explanatory Guide (EG A1): Tier 1, 2, 3 & 4: Guide to Application of the Accounting Standards Framework*.[51]

Table 4: Proposed taxonomy for the key content of NZ CS 3

Note: Blue background means it is in addition to the table of proposed terms from XRB. Red strikethrough is intentional and means it should be replaced.

Table 4: Key content of NZ CS 3	XRB proposed definitions	McGuinness Institute comments
Materiality	Materiality An entity will be required to disclose all material information about its climate-related risks and opportunities. This section will include a definition of material information and requirements/explanatory paragraphs in relation to materiality judgements.	See Table 1 for 'material climate risks', 'material climate targets', 'material climate metrics' 'material climate omission' and 'material financial climate risks (which refers to risks that must be reported in the financial statements of an entity)'.
~~Reporting entity and reporting period~~ FMA climate reporting entity (FMACRE)	Except as otherwise required by legislation, an entity will be required to present climate-related disclosures for the same reporting entity and reporting period as the financial statements	Not needed as we believe this is a requirement in the legislation. See s 461ZNLodgement of climate statements: 'Every climate reporting entity that is required to prepare climate statements or group climate statements under any of sections 461W to 461Y must ensure that, within 4 months after the balance date of the entity.' Balance date is already in the Financial Reporting Act 2013. **FMA climate reporting entity** (or FMACRE for short)
Comparative information and consistency of reporting	This section will include requirements: • to report comparative information (for both amounts and narrative and descriptive information); and • to report information consistently.	Agree, but this could go into an explanatory guide to NZ CS 1. We are unsure if it needs to be defined.
Presentation/cross-referencing	This section will include requirements in relation to presentation, including the ability of an entity to cross-reference to other information.	Agree, but this could go into an explanatory guide to NZ CS 1. We are unsure if it needs to be defined.
Fair presentation	Requirements in relation to fair presentation. Fair presentation requires the faithful representation of climate-related risks and opportunities. Entities will be required to disclose information that is relevant, reliable, comparable and understandable.	We note that the *New Zealand Equivalent to International Accounting Standard 1 Presentation of Financial Statements (NZ IAS 1)* uses fair presentation. It is a core concept of external reporting and could be added to an explanatory guide to NZ CS 1.
~~Reporting framework~~ Climate-related disclosure framework	Statutory basis under which the climate statement has been prepared.	We suggest using the term from the law, climate-disclosure reporting framework. We suggest using the term used in the 2021 Act, see s 9AA Meaning of climate-related disclosure framework.
Statement of compliance	Requirement to state compliance with Aotearoa New Zealand Climate Standards.	Agree, but this could go into an explanatory guide to NZ CS 1. We are unsure if it needs to be defined.
Qualitative characteristics of useful information	Relevance, faithful representation (information being complete, neutral and free from error), comparability, verifiability, timeliness and understandability. (See also	Agree, but this could also go into an explanatory guide to NZ CS 1.

Table 4: Key content of NZ CS 3	XRB proposed definitions	McGuinness Institute comments
	The TCFD Fundamental Principles for Effective Disclosure).	We believe this and many of the other terms mentioned above belong in an explanatory guide on the climate-related disclosure framework.

Thank you
Thank you for your hard work. This is a challenging, important and new area of accounting and deserves the high level of rigour and consultation that you have applied. The Institute looks forward to engaging with the XRB on this important topic going forward.

Endnotes

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[1] See Madge, G. (8 May 2022). *Temporary breaching of 1.5C in next five years?* Met Office. Retrieved 27 May 2022 from https://www.metoffice.gov.uk/about-us/press-office/news/weather-and-climate/2022/decadal-forecast-2022

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[4] See Ministry for the Environment (MfE). (May 2022). *Te hau mārohi ki anamata – Towards a productive, sustainable and inclusive economy – Aotearoa New Zealand's First Emissions Reduction Plan.* Retrieved 27 May 2022 from https://environment.govt.nz/assets/publications/Aotearoa-New-Zealands-first-emissions-reduction-plan.pdf

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[8] 'The intention is for the ISSB to deliver a comprehensive global baseline of sustainability-related disclosure standards that provide investors and other capital market participants with information about companies' sustainability-related risks and opportunities to help them make informed decisions.' See IRFS. (2021). *International Sustainability Standards Board – About the International Sustainability Standards Board*. Retrieved 27 May 2022 from https://www.ifrs.org/groups/international-sustainability-standards-board

[9] See Financial Stability Board (FSB). (9 November 2015). *Proposal for a disclosure task force on climate-related risks*, p. 3. Retrieved 27 April 2022 from https://www.fsb.org/wp-content/uploads/Disclosure-task-force-on-climate-related-risks.pdf

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[11] See Task Force on Climate-related Financial Disclosures (TCFD). (June 2017). *Recommendations of the Task Force on Climate-related Financial Disclosures*, p. 2. Retrieved 27 April 2022 from https://www.fsb-tcfd.org

[12] See Task Force on Climate-related Financial Disclosures (TCFD). (June 2017). *Recommendations of the Task Force on Climate-related Financial Disclosures,* p. 3. Retrieved 27 April 2022 from https://www.fsb-tcfd.org

[13] See External Reporting Board (XRB). (8 March 2019). *XRB Position Statement on EER*. Retrieved 11 May 2022 from https://www.xrb.govt.nz/integrated-reporting/xrb-position-statement/

[14] See McGuinness Institute and External Reporting Board (XRB). (2018). *Survey Insights: An analysis of the 2017 Extended External Reporting Surveys*, p. 14-15. Retrieved 11 May 2022 from https://www.mcguinnessinstitute.org/wp-content/uploads/2018/10/20181008-Survey-Insights-FINAL-WEB.pdf

[15] See External Reporting Board (XRB). (n.d.). *What is the New Zealand Accounting Standards Framework?* Retrieved 27 May 2022 from https://www.xrb.govt.nz/standards/accounting-standards/accounting-standards-framework/targeted-review-of-the-accounting-standards-framework/targeted-review-summary/what-is-the-new-zealand-accounting-standards-framework

[16] 'Small company reporting exemption**:** Your company does not have to prepare financial statements if during the income year all of the following apply:

- It was not part of a group of companies.
- It had not derived income of more than $30,000.
- It had not incurred expenditure of more than $30,000.

Your company will still need to keep:

- tax records to calculate taxable income, expenses and GST, if you're GST registered
- employer records for employment related taxes, if you're an employer.'

Retrieved 27 April 2022 from https://www.ird.govt.nz/managing-my-tax/record-keeping/financial-reporting-for-companies/financial-reporting-requirements-for-companies

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[19] See External Reporting Board (XRB). (n.d.). *Accounting Standards Framework*. Retrieved 18 May 2022 from https://www.xrb.govt.nz/standards/accounting-standards/accounting-standards-framework/

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[21] See McGuinness Institute. (March 2018). *Working Paper 2018/01 – NZSX-listed Company Tables*, p. 26. Retrieved 29 April 2022 from https://www.mcguinnessinstitute.org/publications/working-papers

[22] See Taskforce on Nature-related Financial Disclosures (TNFD). *Taskforce on Nature-related Financial Disclosures – homepage*. Retrieved 27 May 2022 from https://tnfd.global

[23] See McGuinness Institute. (December 2021). *Discussion Paper 2021/05 – Establishing reference climate scenarios for Aotearoa New Zealand*. (In press.) Retrieved 27 April 2022 from https://www.mcguinnessinstitute.org/publications/discussion-papers

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[28] See Climate Financial Risk Forum (CFRF). (October 2021). *Climate Financial Risk Forum Guide 2021: Disclosures – Managing Legal Risk*, p. 14. Retrieved 27 May 2022 from https://www.fca.org.uk/publication/corporate/climate-financial-risk-forum-guide-2021-disclosures-legal-risk.pdf

[29]See NIWA. (n.d.). Glossary. Retrieved 27 May 2022 from https://niwa.co.nz/adaptationtoolbox/glossary

[30] See NIWA. (n.d.). Glossary. Retrieved 27 May 2022 from https://niwa.co.nz/adaptationtoolbox/glossary

[31] Business Industry Classification Code. Retrieved 27 May 2022 from https://www.businessdescription.co.nz

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[33] See Financial Times. (10 April 2022). *Climate change A to Z: an FT jargon buster*. Retrieved 27 May 2022 from https://on.ft.com/37FtyPY

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